CALSTRS

BUILDING FINANCIAL GROWTH

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

A Component of the State of California
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2012

CALSTRS

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

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Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2012

Prepared by CalSTRS staff

MISSION STATEMENT

Securing the financial future and sustaining the trust of California's educators

OUR GOAL

Risk and Reward

Meet our members' unique financial goals that will provide long-term retirement benefits with the least amount of risk.

No Surprises

Provide the customer what they need, when they need it.

One and Done

Provide timely, accurate, and cost-effective products and services the first time, every time.

Rock Solid

Develop and support our people, ensure the integrity of our systems, and strengthen the trust fund.

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INTRODUCTION

California State Teachers'
Retirement System
100 Waterfront Place
West Sacramento, CA 95605

December 20, 2012

The Comprehensive Annual Financial Report issued by the California State Teachers' Retirement System details the fund's performance for the fiscal year ending June 30, 2012. Significant advancement in pension reform, corporate governance and a continued global economic downturn signaled a year filled with challenges and accomplishments.

Global volatility, reflected in a flat 1.84 percent investment return, reinforces the importance of a long-term investment perspective. Even in the best of times, market performance is unpredictable. What is important is that the focus remains on measuring the fund's health over a very long time horizon. CalSTRS is a patient investor, dedicated to the practice of long-term value creation. CalSTRS investments work to achieve a maximum return at a prudent level of risk to secure the financial future and trust of California's 856,360 educators and their beneficiaries.

Pension Reform

Pension changes contained in Chapter 296, Statutes of 2012 (AB 340—Furutani), the California Public Employees' Pension Reform Act of 2013 (PEPRA), will undoubtedly usher in a new era of retirement benefits for future generations. While the complete impact of the new legislative changes may not be fully realized for decades to come, significant differences are anticipated in three key benefit changes for future members as of, or after January 1, 2013:

- A reduced benefit formula.
- A required final compensation based on three consecutive years of service.
- A cap on compensation allowed in calculating a member's defined benefit pension, otherwise known as creditable compensation.

Overall, the California Public Employees' Pension Reform Act of 2013 recognizes the appropriateness of the existing CalSTRS plan design. CalSTRS administers a comprehensive hybrid system that includes a defined benefit plan, a cash balance plan similar to a 401(k) but with a minimum earnings guarantee, and a defined contribution plan. CalSTRS members earn a reasonable benefit for the service they provide to California's students.

However, closing the $64 billion funding gap remains the most significant reform issue for CalSTRS. Although a specific funding plan is not included as part of the PEPRA, CalSTRS is encouraged by the approval of Senate Concurrent Resolution 105, which states the Legislature's intent to take action in the 2013–14 legislative session to address the long-term funding needs of CalSTRS.

Strategies are underway to work with affected stakeholders to develop at least three or more alternative funding options as requested in the resolution. As they are developed, the plans will consider gradual, incremental increases in contributions to address the long-term funding needs of the Defined Benefit Program. Once completed, CalSTRS will submit the proposed options to the Legislature early next year as outlined in the resolution. We are confident that the funding shortfall can be managed and the promise to California's educators will be upheld.

Preventing Pension Spiking

CalSTRS takes pension spiking very seriously. With the recent passage of the PEPRA, strict limits will be imposed on earnings eligible for creditable compensation that figure into calculating a member's pension. Over the long term, this will provide a critical tool to curtail pension spiking, combined with the bill's three-year final compensation requirement. Additionally, CalSTRS is expanding its auditing unit, which will enable us to collect better information from school districts. Receiving accurate compensation and service data from school employers is a critical component in CalSTRS ability to effectively confront spiking. Efforts started in 2008 to improve employer reporting accuracy have reduced data reporting discrepancies by 97 percent. Most importantly, in cases where spiking has been determined, CalSTRS responds by reducing benefits to the appropriate level and collecting overpayments in a manner consistent with the law.

Corporate Governance

Since 1913, CalSTRS has successfully delivered retirement security for generations of California's educators who have come to depend upon this system. Since that time, CalSTRS never missed a single payment to our members, even during the Great Depression. As the largest educator-only pension fund in the world, it is CalSTRS corporate responsibility as a long-term, patient investor to use our influence to advance the highest ethical, corporate governance standards.

Sustainable Achievements

CalSTRS is a sustainable organization, and one of the most important facets of sustainability is risk management. CalSTRS is committed to active ownership of the companies in which we invest. This includes the integration of environmental, social and corporate governance, or ESG principles, into core business practices. In this spirit, CalSTRS developed organizational-wide strategic goals that include the acceleration of CalSTRS into a fully sustainable, global organization by 2017.

This year marked tremendous strides in the advancement of corporate governance practices such as board diversity, executive compensation, and exercising shareholder voting rights in the proxy season. CalSTRS uses corporate governance as a tool to mitigate portfolio risk. Environmental, social, and corporate governance principles are the framework that governs the CalSTRS business culture and the fundamentals that CalSTRS investment strategy is built upon.

Board Diversity

Earlier this year, CalSTRS played a visible role in Facebook naming a female director to sit on its previously all-male board of directors. Facebook is diverse in its employee ranks and among its nearly 60 percent female user base. However, that same diversity was not originally reflected in their board composition. Facebook's positive response to a letter from CalSTRS in early 2012 shows that a concerned investor, like CalSTRS, can help a vibrant corporation recognize that diversity leads to better corporate performance in the long run.

Say-on-Pay

Equally important in corporate governance is the alignment between pay and performance. With the recent passage of the landmark Dodd Frank legislation, shareholders finally have the opportunity to vote on corporate compensation packages. CalSTRS seized this opportunity, and documented our interactions with portfolio companies in our Say-on-Pay report. The initial results show a disconnect between pay and performance which is the primary reason 17 percent of our portfolio companies compensation packages were rejected.

Proxy Season Advancements

The proxy season proved successful in the advancement of majority voting. CalSTRS firmly believes that the alignment of interest is greater between boards of directors and shareholders when elected under a majority versus a plurality voting standard. Initially, CalSTRS approached 95 companies and requested that they adopt a majority voting standard in director elections. Since then, 82 of those companies adopted a new majority voting standard.

CalSTRS recognizes that long-term value creation, through better corporate governance, is significant to producing better returns. Ensuring retirement security is the fiduciary duty with which CalSTRS, through its investment policy, is actively engaged. As such, owning a share in a company is not the end of a shareholder's influence, but rather, it is the beginning of an on-going dialogue between investors and a company.

Member Profile

Established 99 years ago, the California State Teachers' Retirement System, with a $151.3 billion in net assets as of June 30, 2012, is the largest educator-only pension fund in the world. It administers retirement, disability and survivor benefits for California's 856,360 public school educators and their beneficiaries, from prekindergarten through community college. The Teachers' Retirement Law, part of the California Education Code, established these programs with CalSTRS as the administrator. The law sets required member employer and state contribution rates. CalSTRS members include employees of approximately 1,700 school districts, community college districts, county offices of education and regional occupational programs as of June 30, 2012. Our membership spans from the new teacher just starting out to the retired educator enjoying the fruits of decades of teaching in the classroom.

The median CalSTRS pension replaced less than 60 percent of final salary for the members who retired last year. CalSTRS recommends income replacement of 80 percent to 90 percent to maintain a similar lifestyle in retirement. Public educators do not receive Social Security benefits for their CalSTRS service. Moreover, due to the federal Government Pension Offset and Windfall Elimination Provision, retirees often have their Social Security benefits reduced when receiving a CalSTRS benefit. Most retired educators also do not have employer-funded health insurance after age 65.

We continue to reach members in their communities—from Eureka to San Diego—with online services, counseling services and workshops that explain retirement options and stress the need for early savings. With more than 40 publications and web-based information, we strive to be members' trusted guide to retirement.

Investments Overview

The CalSTRS Investment Portfolio decreased by $4.9 billion, or 3.15 percent in value over the past 12 months. The CalSTRS portfolio is broadly diversified, holding investments ranging from publicly traded short-term bonds to privately held partnerships. The scale and breadth of investments make the management and oversight of these assets highly complex. In light of these factors, CalSTRS has been effective in using its resources in a cost-efficient manner to ensure that benefits continue to flow to CalSTRS participants. Over the last year, the CalSTRS investment portfolio generated a 1.84 percent one-year return calculated on a time-weighted performance basis, ranking in the second quartile among its large public pension fund peers.

See the Investments section for more detailed information on the performance of the CalSTRS investment portfolio.

Financial Statements

The financial statements and notes along with the Management Discussion and Analysis in this report present and analyze the changes in CalSTRS fiduciary net assets for the fiscal year ended June 30, 2012. The markets are dynamic and fluid, any judgment of the financial statements should also consider current market conditions.

Management Responsibility For Financial Reporting And Internal Controls

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. Management is responsible for the integrity and fairness of the information presented in the financial statements, including data that, out of necessity, is based on estimates and judgments. Management is also responsible for establishing and maintaining an effective internal control structure. A system of internal controls provides reasonable, but not absolute, assurance that assets are properly safeguarded and that financial statements are reliable. The concept of reasonable assurance recognizes that first, the cost of a control should not exceed the benefits likely to be derived, and second, the valuation of the cost and benefits requires estimates and judgments by management. We believe that the internal controls currently in place support this purpose, and that the financial statements, accompanying schedules and statistical tables are fairly presented in all material respects.

Actuarial Reports

A summary of demographic and economic assumptions adopted from experience studies that CalSTRS conducts every four years is highlighted in this section. These assumptions are applied to an actuarial valuation that is generally performed on an annual basis. The actuarial valuation provides a picture of the overall funding health of our programs, including the Defined Benefit, Defined Benefit Supplement, Cash Balance Benefit and Medicare Premium Payment programs.

As mentioned previously, this year’s valuation provides critical information for the future of the State Teachers’ Retirement Plan.

Statistical Reports

Past and current data is contained in this section. The section includes tables that reflect the net assets and demographic characteristics of the Defined Benefit, Defined Benefit Supplement, Cash Balance Benefit, CalSTRS Pension2, and Medicare Premium Payment programs. Also captured in the tables, when applicable, is information comparing the last nine years to the previous fiscal year. This look back shows us overall trends in our programs and membership demographics that help us accurately forecast our future ability to meet our members’ retirement needs.

GFOA Award

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to CalSTRS for its comprehensive annual financial report for the year ended June 30, 2011. This is the 17th consecutive year CalSTRS has received this prestigious award. To be awarded the certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. Our report must satisfy both generally accepted accounting principles and applicable legal requirements.

PPCC Standards Award Program

The Public Pension Coordinating Council presented CalSTRS with its Recognition Award for Administration for meeting professional standards for plan administration as set forth in the Public Pension Standards. The Public Pension Coordinating Council is a coalition of three national associations that represent public retirement systems and administrators. The associations that form the PPCC are: the National Association of State Retirement Administrators, National Council on Teacher Retirement and National Conference on Public Employee Retirement Systems. Together, these associations represent more than 500 of the largest pension plans in the U.S.

Acknowledgements

The 2012 Comprehensive Annual Financial Report demonstrates our commitment to ensure the financial security of California's educators. The accuracy of the financial data reflects CalSTRS executive leadership and is a duty performed with prudence in perpetuity. The notion that ideas of the future are structured by the day-to-day interactions teachers have with students today drives the high quality of service we provide. I would like to thank the many staff, advisors and stakeholder organizations dedicated to serving and securing the financial future of our members. CalSTRS is a unique benefits program and it is of utmost importance we continue to sustain the trust and financial integrity of our members in their retirement.

Respectfully submitted,

Jack Ehnes

Jack Ehnes
Chief Executive Officer

Award: GFOA Certificate

Certificate of Achievement for Excellence in Financial Reporting

Presented to

California State Teachers' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Award: PPCC Award

Public Pension Coordinating Council

Recognition Award for Administration 2012

Presented to

California State Teachers' Retirement System

In recognition of meeting professional standards for
plan administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

Teachers' Retirement Board

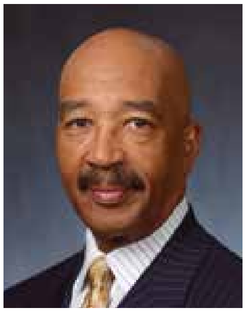
As of June 30, 2012

DANA DILLON
Chair
K–12 Classroom Teacher
Term: 1/1/12–12/31/15

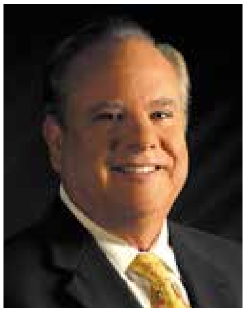
HARRY KEILEY
Vice Chair
K–12 Classroom Teacher
Term: 1/1/12–12/31/15

JOHN CHIANG
State Controller
Ex-Officio Member

SHARON HENDRICKS
Community College Instructor
Term: 1/1/12–12/31/15

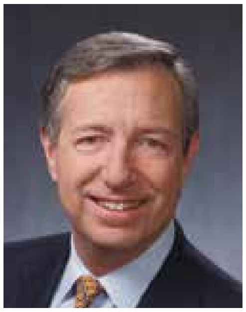


MICHAEL LAWSON
Public Representative
Term: 11/30/11–12/31/13

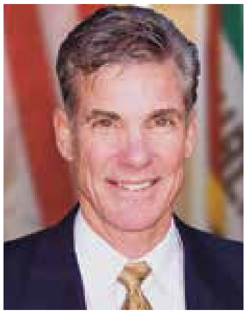


BILL LOCKYER
State Treasurer
Ex-Officio Member

ANA MATOSANTOS
Director of Finance
Ex-Officio Member



PAUL ROSENSTIEL
Public Representative
Term: 11/30/11–12/31/14



TOM TORLAKSON
State Superintendent of Public Instruction

Executive Staff

Executive

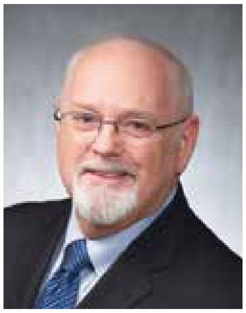
JACK EHNES
Chief Executive Officer

Investments

CHRISTOPHER AILMAN
Chief Investment Officer

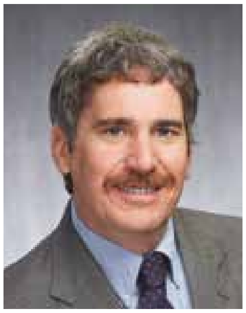
CHRISTINE FORD
Chief of Staff

General Counsel



BRIAN J. BARTOW
General Counsel

Plan Design and Communication

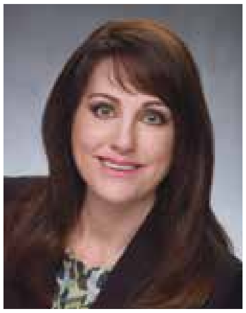


ED DERMAN
Deputy Chief Executive Officer

Enterprise Initiatives and Technology

JANICE HANSON
Deputy Chief Executive Officer

Human Resources



CASSANDRA LICHNOCK
Human Resources Executive Officer

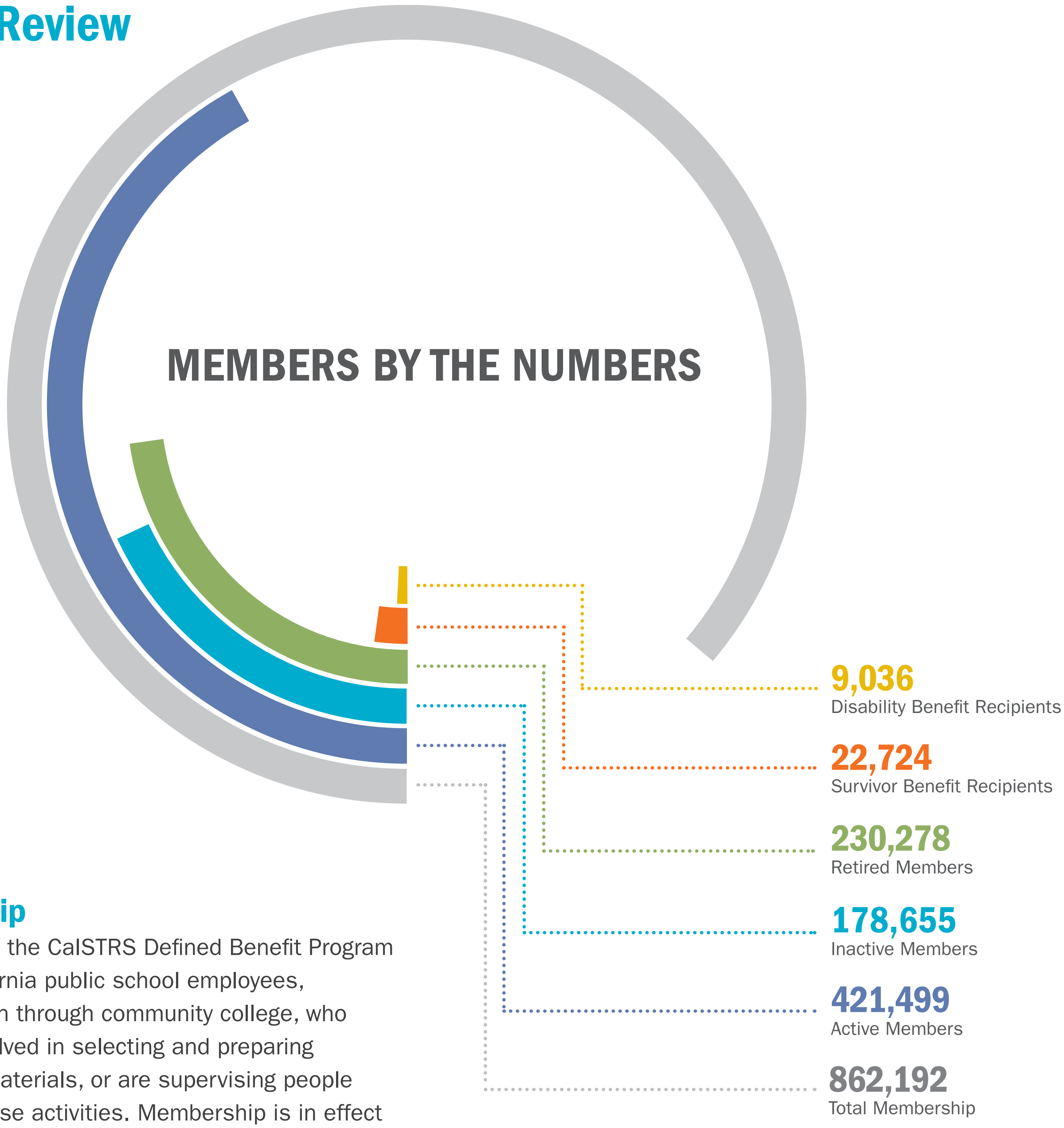
Financial Services

ROBIN MADSEN
Chief Financial Officer

Benefits and Services

PEGGY PLETT
Deputy Chief Executive Officer

Year in Review



Membership

Membership in the CalSTRS Defined Benefit Program includes California public school employees, prekindergarten through community college, who teach, are involved in selecting and preparing instructional materials, or are supervising people engaged in those activities. Membership is in effect as long as contributions remain on deposit with CalSTRS. Members are employed in approximately 1,700 public school districts, community college districts, county offices of education, Regional Occupational Centers and Programs, and select state agencies. The CalSTRS Defined Benefit program includes retirement, disability and survivor benefits. Beneficiaries of a retired member who elected an option receive a continuing lifetime benefit upon the member's death. The financial statements, presented in the financial section, contain Defined Benefit Program membership data as of June 30, 2011, due to the timing of the issuance of the basic financial statements, whereas the membership data presented on this page is as of June 30, 2012. Consequently, the membership data presented here and in the financial statements do not agree.

Benefits to Members and Benefit Recipients

Service Retirement

CalSTRS is committed to providing exceptional service to its retired members. Our staff establishes and maintains timely and accurate service retirement benefits.

12,308	Members who retired in fiscal year 2011–12*
13 percent	Decrease from fiscal year 2010–11

*Retirement applications processed as of June 29, 2012. This number does not include service retirements processed after June 29, 2012 of members who requested retirement effective dates backdated between January 1, 2012 and June 29, 2012.

Disability Benefits

93 percent	Applications processed within 150 days
913	Applications received
592	Approved applications
5 percent	Increase in number of applications from fiscal year 2010–11

Survivor Benefits

7,340	Notifications of death received
1 percent	Decrease in number of notifications from fiscal year 2010–11
85 percent	Payments processed within 30 days of receiving all necessary information

Communicating With Our Members and Beneficiaries

Customer Service

Members may contact a CalSTRS Contact Center agent by phone, secured online message, or written correspondence.

311,334	Member inquiries answered
60 percent	Member calls answered within 30 seconds
114 seconds	Average wait time to talk with Contact Center agent
28 percent	Members who received a response to their secure online message within one business day

CalSTRS places great emphasis on customer satisfaction and regularly surveys members to ensure they receive accurate, timely and thorough answers to their questions.

- 80 percent of members were "highly satisfied" with their Contact Center experience.

Member Communications

CalSTRS communicates with its active and retired members through a variety of channels.

Newsletters

CalSTRS reaches out to members and beneficiaries through the *CalSTRS Connections: Reaching Your Retirement*, *CalSTRS Connections: Your Money Matters*, and *Retired Educator* newsletters.

CalSTRS Connections: Reaching Your Retirement is mailed to active and inactive members age 50 and older in the spring and fall. It provides information about retirement planning and decisions, workshops and benefits counseling, legislative news and more.

CalSTRS Connections: Your Money Matters is mailed to active and inactive members age 49 and younger in the the spring and fall. It provides updates on CalSTRS programs and services, articles on retirement and financial planning, legislative news and more.

Retired Educator is mailed to retired members and beneficiaries in the summer and winter. It provides information on benefits and services, legislation, investments and board updates.

Retirement Progress Report

Every year Defined Benefit members and Cash Balance participants receive a personalized *Retirement Progress Report* that contains detailed account information. For members age 45 and older, the report also includes retirement benefit estimates and information for planning retirement.

The reports are available online in September on the member's *my*CalSTRS account and usually mailed in November, and provide statement of accounts as of June 30 of that school year. Retired members and other benefit recipients do not receive this report.

Member Informational Publications

CalSTRS offers a number of publications to members at various stages in their careers.

The *CalSTRS Member Handbook* is a comprehensive resource of CalSTRS programs and benefits, including descriptions, eligibility requirements and worksheets. The handbook is updated annually.

The *Your Retirement Guide* booklet provides the information members need to plan, research and make retirement decisions regarding a member's Defined Benefit pension and a member's Defined Benefit Supplement funds. It includes step-by-step instructions for applying for the service retirement and what to expect after submiting the retirement application.

CalSTRS Member Kits contain targeted retirement information and are mailed annually to three groups of CalSTRS members when they reach a career milestone. The three career milestones—newly vested, mid-career and near retirement—are based on the member's age and length of service.

In addition, CalSTRS publishes publications that cover specific topics, including:

- *Cash Balance Benefit Program: A Retirement Plan for Part-Time and Adjunct Educators*
- *Community Property Guide*
- *Introduction to Disability Benefits*
- *Your Disability Benefits Guide*
- *Join CalSTRS? Join CalPERS?*
- *Purchase Additional Service Credit*
- *Refund: Consider the Consequences*
- *Social Security, CalSTRS and You*
- *Survivor Benefits: Remember Your Loved Ones*
- *Tax Considerations for Rollovers*
- *Welcome to CalSTRS*

CalSTRS Online

CalSTRS has four websites: CalSTRS.com, *my*CalSTRS, CalSTRSbenefits.us and 403bCompare.com.

CalSTRS.com is the main site for members, board members, employers and other business partners. Features include online calculators to estimate retirement benefits and calculate the cost to purchase service credit or redeposit funds; CalSTRS publications and forms; and self-scheduling for workshops and group counseling sessions.

*my*CalSTRS, CalSTRS' **self-service** site for members, provides secure and convenient access to members' personal accounts. After registering for *my*CalSTRS, members can view their account balances, complete and submit forms online, keep their address current, view their *Retirement Progress Reports*, and ask questions and receive prompt answers.

CalSTRSbenefits.us is a resource for CalSTRS pension news and information. It features interactive tools and multimedia segments, and an Ask Jack column.

At 403bCompare.com, members can compare fees charged by different mutual funds and insurance products.

Members can also stay connected to CalSTRS through its social media presence on Facebook, Twitter, Google+, LinkedIn, YouTube and Pinterest.

403bCompare Web Tool

The 403bCompare website is a bank of free objective information about 403(b) vendors and the products they offer.

With 403bCompare.com, members can easily compare tax-deferred 403(b) retirement investment products such as annuities and mutual funds. The tool features an option that allows members to compare up to three like products with a side by side comparison of fund descriptions, fees and returns.

Benefits Counseling

CalSTRS now has two member service centers with the opening of the Glendale center in January 2012. The member service centers offer direct counseling and assistance to both active and retired members, and provide benefits counseling and workshops in the Los Angeles County and Sacramento areas. The offices are open Monday through Friday, 8 a.m. to 5 p.m. and Saturdays by appointment. The member service centers are among the 21 CalSTRS local benefits counseling offices located across the state. One of the unique aspects of the member service centers is the ability for members to come in during office hours by appointment or on a walk-in basis to seek assistance with general information questions, have a CalSTRS representative review CalSTRS-related forms, or drop off forms that need to be transmitted to headquarters. Because of its accessibility and array of services provided to members, CalSTRS anticipated that the Glendale office would serve many members on a walk-in basis. Since opening, the number of members who visited Glendale has exceeded expectations.

Glendale Member Service Center

The benefits counseling program continues to make strides in developing new ways to serve members. Under the guidance of a benefits counselor, members now complete a form during the counseling session called *My Next Steps* to identify specific information they need to gather or actions they need to take following their appointment. *My Next Steps* serves as a checklist members can use, along with their estimate of benefits, to effectively plan their retirement. Three-minute educational videos produced this year and posted on CalSTRS.com give members an opportunity to educate themselves about their benefits and retirement planning on their own time. The focus of these efforts is to customize services to members based on career stage and life situation for the purpose of empowering them to take an active role in their financial future.

Members are drawn to services that are available to them in the time frame that works for their specific situation. This year, 31,885 members attended benefits counseling sessions, a decrease of 18 percent from the prior year. However, it appears that more members are taking advantage of the additional educational services CalSTRS provides. One service that continues to experience expansion is the CalSTRS on Campus program, which served 1,029 members last year. This program targets specific sites in school districts to provide convenient counseling services at the member's place of employment, usually after the school day ends, saving members travel time and eliminating the need to take time out of the classroom. Another convenience for members is the Estimate Service, which last year provided 1,529 members with an updated estimate without requiring another appointment. The walk-in services at the Glendale and West Sacramento member service centers provided 4,022 members with immediate assistance with their retirement planning. These services were designed to increase accessibility for members, reflecting their interest in self-education, self-service, and using tools to make independent, informed decisions.

Services To Employers, Member and Client Organizations

Two committees meet regularly to provide a forum for active participation in shaping CalSTRS policies and procedures in areas of information dissemination, benefit plan administration and services to members and beneficiaries. The Employer Advisory Committee is composed of county and district employer representatives. The Client Advisory Committee includes members of various organizations representing CalSTRS members and benefit recipients. CalSTRS staff schedule special meetings with both committees to work closely on plan design and other crucial member and employer issues.

CalSTRS staff supports the employer reporting process through education, collaboration and continuous improvement. CalSTRS has enhanced the delivery of information by making it available electronically and on demand for the employer. The Secure Employer Website, SEW, a secure solution for employers to submit their monthly reporting data, includes checks and balances to ensure the data is accurate and verified.

CalSTRS is committed to preventing pension abuse by automating the review of compensation credited to retirement. CalSTRS Compensation Review Unit has increased reviews of potential abuse cases through the introduction of the Pension Abuse Reporting Hotline and online submission form.

Professional Services

CalSTRS contracts for the services of various independent consultants essential to the effective and professional operation of the system. Milliman, Inc. provides actuarial services and the independent auditor is Crowe Horwath LLP. Lists of investment professionals for investment services and other consultants are provided on Schedules IV and V in the financial section of the report.

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

Teachers' Retirement Board of the California
State Teachers' Retirement System
Sacramento, California

We have audited the accompanying basic financial statements of the California State Teachers' Retirement System (the System), a component unit of the State of California, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2011 financial statements and, in our report dated October 7, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the California State Teachers' Retirement System as of June 30, 2012, and the changes in fiduciary net assets for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

As described in Note 3, based on the most recent actuarial valuation as of June 30, 2011, the System's independent actuaries determined that, at June 30, 2011, the value of the Defined Benefit Program's actuarial accrued obligation exceeded the actuarial value of its assets by $64 billion. The most recent actuarial value of assets as of June 30, 2011 does not include either deferred investment losses or gains that will be recognized in the future.

The financial statements include investment securities valued at approximately $45 billion as of June 30, 2012, for which fair value has been estimated by general partners and investment advisors, and reviewed and approved by CalSTRS management, in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation, the estimate of values may differ from the values that would have been used had a ready market existed for the investment securities, and the differences could be material.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2012 on our consideration of the California State Teachers' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 25-39 and the Schedule of Funding Progress, and the Schedule of Contributions from Employers and Other Contributing Entities on pages 74-79 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing procedures generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements as a whole. The introduction section, other supplemental information in the financial section, investments section, actuarial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplemental information in the financial section has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information in the financial section is fairly stated in all material respects in relation to the basic financial statements as a whole. The introduction section, investments section, actuarial section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Crowe Horwath LLP

October 5, 2012
Sacramento, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of the California State Teachers' Retirement System's (CalSTRS) financial performance provides an overview of financial activities for the fiscal year ended June 30, 2012. This discussion and analysis focuses on the year's activities, resulting changes, and currently known facts. This discussion is more meaningful when read in conjunction with the CalSTRS financial statements and accompanying notes to the financial statements.

In addition to historical information, this discussion and analysis includes some forward-looking statements that involve uncertainties and risks. CalSTRS actual results, performance and achievements expressed or implied in these statements are subject to changes in interest rates, securities markets, general economic conditions, legislation, regulations, and other factors.

CalSTRS is primarily responsible for administering a hybrid retirement system, consisting of traditional defined benefit, cash balance and defined contribution plans, including disability and survivor benefits for California public school teachers and certain other employees of the state's public school system. CalSTRS is comprised of the following:

- State Teachers' Retirement Plan (STRP)
- CalSTRS Pension2® Program (Internal Revenue Code 403(b) and 457 plans)
- Teachers' Health Benefits Fund (THBF)
- Teachers' Deferred Compensation Fund (TDCF)

The Teachers' Retirement Board (Board) has exclusive control over the administration of the retirement system plans and the investment of funds. The Board makes rules, sets policies, and has the power and authority to hear and determine all facts pertaining to application for benefits under the retirement system. It is comprised of 12 members:

- Five members appointed by the Governor: one member currently serving on a school board, one retired CalSTRS member, and three public members;
- Four ex-officio members: the Superintendent of Public Instruction, the State Treasurer, the State Controller, and the Director of Finance;
- Three members elected by CalSTRS membership

In fiscal year 2011-12, membership of the Board changed significantly. In October and November 2011, three Board members were elected or re-elected by active members to serve from 2012 through 2015. In November 2011, the Governor appointed two new members representing the public. At the end of calendar year 2011 and early in calendar year 2012, three Governor-appointed members left the Board and three Governor-appointed seats remain open at June 30, 2012.

In its updated 5-year strategic plan approved in April 2012, the Board set goals of ensuring the long-term viability of the Defined Benefit (DB) Program, managing risk to the organization, enhancing services to members, and continuing workforce and process improvements as primary focus areas for the organization. The viability of the DB Program is a top priority for the Board as CalSTRS projects a significant funding shortfall or unfunded actuarial obligation for the DB Program. In addition, the Governor has proposed reforms to state and local pension systems that could impact the CalSTRS DB Program if enacted. Refer to Note 7 for information on pension reform legislation subsequent to the end of the fiscal year.

The projected DB Program shortfall is based on an actuarial valuation, explained later in this Management's Discussion and Analysis. CalSTRS projected assets must balance with the cost of future benefits over the long term to pay the pension obligation to all generations of teachers. Currently, CalSTRS is projected to have assets to pay benefits through 2046.

Under California state law, the DB Program receives contributions from members and employers set as a percentage of members' earnings, in addition to contributions from the state's General Fund and other sources. CalSTRS investment earnings finance the cost of administering the plan and reduce the amount of contributions required to fund benefits. CalSTRS has few options to address its funding shortfall because it cannot unilaterally raise contribution rates. Because they are set in statute, only the Legislature and the Governor have the authority to adjust contribution rates paid by members, employers and the state.

Historically, investment returns contribute almost 60 percent of the retirement benefit. CalSTRS uses a time-weighted return methodology to calculate returns for performance purposes. CalSTRS earned an approximate 1.84 percent one-year return on a performance basis in fiscal year 2011-12, well below the actuarial assumed rate of 7.5 percent. According to the June 30, 2011 actuarial valuation for the DB Program, the gap between the value of assets and the value of its obligations, or funding gap, has grown to approximately $63.8 billion. CalSTRS estimates it cannot invest its way out of its projected funding shortfall.

At the end of the 2011 legislative year, a legislative conference committee was created to address legislative pension proposals. The first hearing was held on October 26, 2011, and enabled the major pension plans in California, including CalSTRS, to provide committee members an overview of their respective plans and the issues they are facing. The second hearing, on December 1, 2011, was a review of the Governor's 12-point pension proposal, in which each pension plan, including CalSTRS, presented its analysis of the impacts of the proposal on the pension plan and its members.

CalSTRS staff emphasized that, while the Governor's proposal was a valuable step in addressing issues facing public pension plans, there was no specific proposal made to confront the most significant issue the CalSTRS benefit program faces—the unfunded liability in the DB Program. In response to a request from the committee and to assist the Legislature and the Governor, CalSTRS submitted illustrations of six different ways to address the long-term viability of the DB program through a combination of member, employer and state contribution increases. Some of the alternatives underscored the fact that CalSTRS employers do not contribute to social security for CalSTRS members.

In September 2011, based upon recommendations from an internal anti-spiking task force, the Board approved the establishment of the Compensation Review Unit to prevent the reporting of creditable compensation for the purpose of inappropriately enhancing a member's pension benefit. In addition to establishing the Compensation Review Unit, CalSTRS created a toll-free hotline and an online form on its website to report pension abuse and supported anti-spiking legislation.

In June 2012, the Governmental Accounting Standards Board (GASB) released two accounting standards that amend existing pension accounting standards for plans and employers. CalSTRS (plan administrator) will have to implement the new standard for pension plans for financial statements beginning in fiscal year 2013-14, while school districts (employers), other employers and the State of California must implement the new standard for employers for financial statements beginning in fiscal year 2014-15. As part of GASB's process for drafting the new standards, CalSTRS responded separately and collaboratively with other pension systems to GASB requests for feedback on the proposed changes, participated in GASB public hearings, and completed a field test of the new standards. School districts may need to rely on CalSTRS to provide information required by the new standards for their financial statements.

The new GASB standards will replace the current unfunded liability with a new, substantially larger net pension obligation, which is calculated differently from the unfunded liability. The net pension obligation might be allocated to school districts based on their estimated portion of contributions and/or the State of California, and either or both would be required to report the obligation as a liability in their financial statements. This liability might overshadow all other liabilities on school district balance sheets and could result in a negative fund balance. See the paragraphs on GASB Statements No. 67 and 68 in Note 7 for additional information on the new GASB standards.

CalSTRS has embarked on the long-term, multi-year BusinessRenew Project which is undertaking the transformation of business processes and systems to enable CalSTRS to meet the objectives outlined in its strategic plans. BusinessRenew is a collection of work efforts to provide consistent, integrated business processes and systems across CalSTRS. BusinessRenew work efforts will be implemented over several years in a phased approach. One of the objectives of the project is to enhance CalSTRS internal controls through ongoing technology initiatives.

In one of the first system releases under the BusinessRenew Project, many manual administrative processes will be automated through the implementation of SAP Enterprise Resource Planning software. Once the integrated SAP system is launched, which is planned for late 2012, it is expected to improve the operational efficiency and effectiveness of CalSTRS business and fiscal functions.

FINANCIAL HIGHLIGHTS

- Total net assets for the STRP decreased by $ 4.0 billion or 2.6 percent to $ 151.3 billion due to a combination of flat investment returns and a growing gap between contributions and benefit payments.

- Total member contributions for the STRP decreased by $ 76.0 million or 3.2 percent to $2.3 billion, as school districts cut payroll costs to meet tight budgets.

- Total employer contributions for the STRP decreased by $72.3 million or 3.1 percent to $2.2 billion, mirroring the decrease in member contributions.

- Total state contributions for the STRP increased by $109.2 million or 9.2 percent to $1.3 billion as a result of additional state contributions due to the unfunded obligation.

- Net investment income for the STRP decreased by $29.0 billion or 96.4 percent to $1.1 billion as a result of the decrease in the rate of return for the portfolio from 23.10 percent to 1.84 percent.

- Benefit payments for the STRP increased by $585.1 million or 5.8 percent to $10.7 billion, reflecting an increase in the number of retirees and beneficiaries and an annual cost of living adjustment.

- In the most recent actuarial valuation as of June 30, 2011, the CalSTRS DB Program was estimated to be funded at 69 percent compared to an estimated funding level of 71 percent as of June 30, 2010 (see Note 3 and Required Supplementary Information for additional information.) This decline reflects the recognition of additional investment losses from fiscal year 2008-09 within the actuarial valuation based on three-year smoothing of investment gains and losses, as well as lowering the actuarially assumed investment rate of return.

OVERVIEW OF FINANCIAL STATEMENTS

Management's Discussion and Analysis is also an introduction to CalSTRS basic financial statements. CalSTRS financial statements include the following components:

1. The Statement of Fiduciary Net Assets
2. The Statement of Changes in Fiduciary Net Assets
3. Notes to the Basic Financial Statements
4. Required Supplementary Information - Unaudited
5. Other Supplemental Information

The Statement of Fiduciary Net Assets. The Statement of Fiduciary Net Assets presents information on all of CalSTRS assets and liabilities, with the difference between the two reported as net assets. Over time, the increase or decrease in net assets serves as a useful indicator of the health of CalSTRS financial position and its ability to fund future benefit payments.

The Statement of Changes in Fiduciary Net Assets. The Statement of Changes in Fiduciary Net Assets shows how CalSTRS net assets changed during the fiscal year, reflecting contributions earned, benefit payments made, investment returns, and the costs of administering CalSTRS.

Notes to the Basic Financial Statements. The Notes to the Financial Statements provide information essential to a full understanding of fiduciary fund financial statements. The type of information provided in each of the notes to the financial statements is as follows:

- Note 1 provides a general description of CalSTRS, as well as a concise description of each of the plans and funds administered by CalSTRS.

- Note 2 provides a summary of significant accounting policies, including the basis of accounting for CalSTRS, management's use of estimates, cash and investment accounting policies, and other significant accounting policies, including the capitalization policy for land, building, equipment and intangible assets.

- Note 3 provides a summary of CalSTRS funded status for the State Teachers' Retirement Plan and Medicare Premium Payment Program in accordance with GASB Statement No. 50, *Pension Disclosures* (an amendment of GASB Statements No. 25 and No. 27) and GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively.

- Note 4 describes deposits and investments, including disclosures required by GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, and GASB Statement No. 53, *Accounting and*

Financial Reporting for Derivative Instruments, which include information about CalSTRS investment risks related to credit (including custodial credit and concentrations of credit risk), interest rate, and foreign currency risks.

- Note 5 generally describes potential contingencies of CalSTRS.

- Note 6 provides a summary of CalSTRS significant commitments.

- Note 7 provides a summary of new accounting and financial reporting pronouncements.

Required Supplementary Information. The Required Supplementary Information consists of two schedules and related notes on the defined benefit pension and other postemployment benefit plans' funding progress and history of contributions from employers and other contributing entities. These schedules provide historical information and actuarial assumptions and methods that assist in understanding the funded status of CalSTRS. The information available in the Required Supplementary Information section includes:

- Schedule I – Schedule of Funding Progress

- Schedule II – Schedule of Contributions from Employers and Other Contributing Entities

Other Supplemental Information. Other Supplemental Information includes detailed information on administrative expenses, investment expenses, and consultant and professional services expenses.

The information available in the Other Supplemental Information section includes:

- Schedule III – Schedule of Administrative Expenses

- Schedule IV – Schedule of Investment Expenses

- Schedule V – Schedule of Consultant and Professional Services Expenses

FINANCIAL ANALYSIS

State Teachers' Retirement Plan (STRP)

The State Teachers' Retirement Plan (STRP) is a defined benefit pension plan that provides retirement, disability, and survivor benefits. It is comprised of four programs: the Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefit Program (See Note 1 for further explanation).

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The information that follows presents comparative information and changes to plan net assets for fiscal years 2011-12 and 2010-11.

NET ASSETS
(Dollars in Thousands)

ASSETS	2012	2011	Percent Change
Investments [1]	$ 174,341,552	$ 181,126,859	-3.7%
Cash and Cash Equivalents	1,633,159	428,253	281.4%
Investment Receivables	1,009,980	1,111,233	-9.1%
Member, Employer and Other Receivables	686,505	654,264	4.9%
Capital Assets	244,507	243,875	0.3%
TOTAL ASSETS	177,915,703	183,564,484	-3.1%
LIABILITIES			
Benefits in Process of Payment	78,049	917,085	-91.5%
Investment Payables	1,559,022	1,920,924	-18.8%
TALF Loan Payable	15,558	25,985	-40.1%
Master Credit Facility Payable	995,600	-	100.0%
Other Liabilities	214,808	82,617	160.0%
Securities Lending Obligation	23,734,609	25,272,058	-6.1%
TOTAL LIABILITIES	26,597,646	28,218,669	-5.7%
TOTAL NET ASSETS	$ 151,318,057	$ 155,345,815	-2.6%

[1] Includes securities lending collateral.

STRP net assets decreased by $4.0 billion or 2.6 percent, from $155.3 billion in fiscal year 2010-11 to $151.3 billion in fiscal year 2011-12. This decrease is attributable mainly to the shortfall between benefit payments made to retired members and their beneficiaries and contributions received from active members, employers and the state/federal government. The gap between benefit payments and contributions has typically been filled by investment returns. To the extent that investment returns are not able to make up the shortfall, investment assets are liquidated to make benefit payments, which causes a corresponding decrease in net assets.

Investments, excluding securities lending collateral, decreased by $5.3 billion or 3.4 percent to $150.6 billion as of June 30, 2012. At June 30, 2012, the STRP held $73.4 billion in global equity securities, a decrease of $ 7.1 billion or 8.9 percent from June 30, 2011. At June 30, 2012 the STRP also held $28.7 billion in debt securities, an increase of $467.9 million or 1.7 percent from the prior year. Remaining holdings in short-term, private equity, real estate, inflation sensitive and overlay investments totaled $48.5 billion at June 30, 2012, an increase of $1.4 billion or 2.9 percent from the balance as of June 30, 2011. Net depreciation on investments was $2.6 billion in fiscal year 2011-12, compared to a net appreciation of $26.6 billion in fiscal year 2010-11, resulting in an overall decrease of $29.2 billion. In spite of the $2.6 billion net depreciation on investments, net investment income overall was $1.1 billion for fiscal year 2011-12, mainly due to $3.7 billion in interest, dividend, and other income.

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Cash and Cash Equivalents increased by $1.2 billion or 281.4 percent in fiscal year 2011-2012 compared to the prior fiscal year. The shift towards an increased cash balance was primarily to increase exposure to liquid investments in anticipation of upcoming benefit and members' tax payments.

Investment Receivables decreased by 9.1 percent from $1.1 billion to $1.0 billion as of June 30, 2012. This balance can fluctuate based on the open trades and dates of settlement.

Benefits in the process of payment decreased $839.0 million or 91.5 percent. This balance can change significantly depending on when benefit payments are processed at the end of the fiscal year.
Other liabilities increased by $132.2 million or 160 percent between fiscal years, due primarily to the timing of tax-withholding payments made to the Internal Revenue Service and the Franchise Tax Board.

In fiscal year 2011-2012, CalSTRS entered into three (3) separate unsecured credit facilities (Master Credit Facility Portfolio) for the Real Estate core investment strategy. The proceeds from the Master Credit Facility Portfolio provide a source of funds for managing capital flows of investment strategies. As of June 30, 2012, the total available lines of credit in the Master Credit Facility Portfolio was $1.4 billion, of which $995.6 million has been funded.

Securities lending collateral and obligations both decreased by $1.5 billion during fiscal year 2011-12 due primarily to a reduction in the securities available to lend as a result of market fluctuations and asset allocation shifts within the plan. The Securities Lending Program is designed to use its existing asset base and investment expertise to generate a steady source of risk-controlled incremental income. In the last calendar year, there have been positive developments in the security lending markets resulting in additional diversification and income opportunities. Net income generated by the Securities Lending Program for fiscal year 2011-12 was $124.0 million, compared to $99.4 million in fiscal year 2010-11.

California State Teachers' Retirement System
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CHANGES IN NET ASSETS
(Dollars in Thousands)

ADDITIONS	2012	2011	Percent Change
Member	$ 2,279,900	$ 2,355,909	-3.2%
Employer	2,237,983	2,310,251	-3.1%
State	1,302,581	1,193,364	9.2%
Investment/Other Income (Loss)	1,075,435	30,036,821	-96.4%
TOTAL ADDITIONS	6,895,899	35,896,345	-80.8%
DEDUCTIONS			
Benefit Payments	10,677,135	10,092,064	5.8%
Refund of Contributions	108,111	116,089	-6.9%
Administrative Expenses	138,411	110,484	25.3%
TOTAL DEDUCTIONS	10,923,657	10,318,637	5.9%
NET ASSET INCREASE (DECREASE)	(4,027,758)	25,577,708	-115.7%
BEGINNING NET ASSETS	155,345,815	129,768,107	19.7%
ENDING NET ASSETS	$ 151,318,057	$ 155,345,815	-2.6%

Additions to Plan Net Assets
The STRP benefits are funded from employer, member and state contributions, and investment earnings. Employer and member contribution rates are established by state law. As a result, only the Legislature and the Governor, not the Board, have the authority to change employer and member contribution rates. As per statute, CalSTRS received 0.524 percent more in state contributions as a percentage of creditable earnings for most of fiscal year 2011-12 due to the unfunded liability status of the DB Program based on benefits in place as of July 1, 1990.

The STRP net investment income decreased 96.4 percent to $1.1 billion in fiscal year 2011-12 as compared to net income of $30.0 billion in fiscal year 2010-11. This reduction in net income was attributed to the highly volatile and challenging global equity market. While other asset classes, notably fixed income, experienced positive one-year returns, these were overshadowed by a -3.05 percent one-year return on a performance basis by global equities, which comprises approximately 50 percent of the total investment portfolio.

Deductions from Plan Net Assets
Benefit payments totaled $10.7 billion in fiscal year 2011-12. The $585.1 million or 5.8% percent increase in benefit payments over the prior year is primarily the result of an increase in retirees receiving benefit payments. The average monthly benefit paid to beneficiaries is $3,417 based on fiscal year 2010-11 information (the most recent available). This benefit payment is typically the single retirement benefit CalSTRS members receive as they do not participate in Social Security.

Refund of Contributions decreased by 6.9 percent from $116.1 million to $108.1 million for fiscal year 2011-12. Refund requests and amounts fluctuate year to year due to changing demographic trends (i.e., mortality rates) and economic conditions (i.e., employment rates).

Administrative expenses increased by $27.9 million or 25.3 percent, mainly due to personnel costs. Part of this increase is the result of the end of state mandated furloughs during fiscal year 2011-12.

CalSTRS Pension2 Program

CalSTRS Pension2 (Pension2) offers Internal Revenue Code (IRC) section 403(b) and 457 plans which are tax-deferred defined contribution plans. Through Pension2, school employees have the opportunity to supplement their pension benefits. TIAA-CREF has been retained to provide administration and trustee services over Pension2. Net assets increased by $46.0 million or 14.7 percent as combined contributions and net investment income of $66.6 million exceeded distributions and administrative expenses of $20.6 million. Contributions increased $11.5 million or 23.6 percent from fiscal year 2010-11, while net investment income decreased $37.6 million or 85.5 percent.

Teachers' Health Benefits Fund

The Teachers' Health Benefits Fund (THBF) is a trust fund created to administer health benefit programs established by statute. The Medicare Premium Payment Program (MPP Program), the only program within the fund, pays Medicare Part A premiums and surcharges and Part B surcharges for retired members of the DB Program who meet certain eligibility criteria. Education Code sections 22950(c) and 25930 require a portion of the statutory employer contributions to be deposited directly to the THBF for the payment of MPP Program benefits and prohibit the transfer of Teachers' Retirement Fund resources for these payments.

Current contributions decreased by $1.5 million or 4.2 percent to $34.6 million during fiscal year 2011-12. The THBF paid benefits of $34.4 million in fiscal year 2011-12, which is a 3.8 percent decrease from the $35.8 million in benefits paid in the prior year. Since the evaluated amount needed to fund the MPP Program in its entirety has not been transferred to the THBF, the funded ratio from a financial reporting perspective is 0.1 percent as of June 30, 2010. (See Note 3)

Teachers' Deferred Compensation Fund

The Teachers' Deferred Compensation Fund (TDCF) is a trust fund established to account for ancillary activities associated with various deferred compensation plans and programs offered by CalSTRS to enhance the tax-deferred financial options for members and their beneficiaries. The TDCF received fee revenues and interest of $770,000, an increase of $269,000 or 53.7 percent from the prior year. This increase is primarily due to an increase in maintenance fees charged to vendors through the 403(b)Compare program.

FUNDING ANALYSIS – DEFINED BENEFIT PROGRAM

The most important component of CalSTRS pension funding is investment income (including unrealized gains and losses). Historically, CalSTRS investment income has contributed over half of the total inflows to the plan. Currently the investment rate of return and discount rate assumption for actuarial valuation is 7.5 percent. The investment return assumption (discount rate), according to actuarial principles, should be based on an estimated long-term investment yield for the plan, with consideration given to the nature and mix of current and expected plan investments, and is the basis for determining the actuarial value of assets. The investment return assumptions are developed by CalSTRS investment and actuarial consultants and are adopted by the Board.

The actuarial assumptions and methods used in the June 30, 2011 valuation were based on the 2010 Actuarial Experience Analysis adopted by the Board in February 2012. In the 2010 Actuarial Experience Analysis, the investment rate of return and discount rate assumption were lowered from

7.75 to the current 7.5 percent. The change in the discount rate assumption and other factors increased the unfunded obligation by $7.8 billion.

The table below presents information to highlight the importance of the investment rate of return, which is used to discount the actuarial liabilities of CalSTRS, and how fluctuations in the investment rate of return and discount rate would change the Funded Ratio, Unfunded Actuarial Accrued Liability (UAAL) at both the actuarial and market value of assets and the Projected 30-Year Level Funding Rate (Total Required Contribution) under various investment rate of return assumptions.

Defined Benefit Program

(Dollars In Millions)

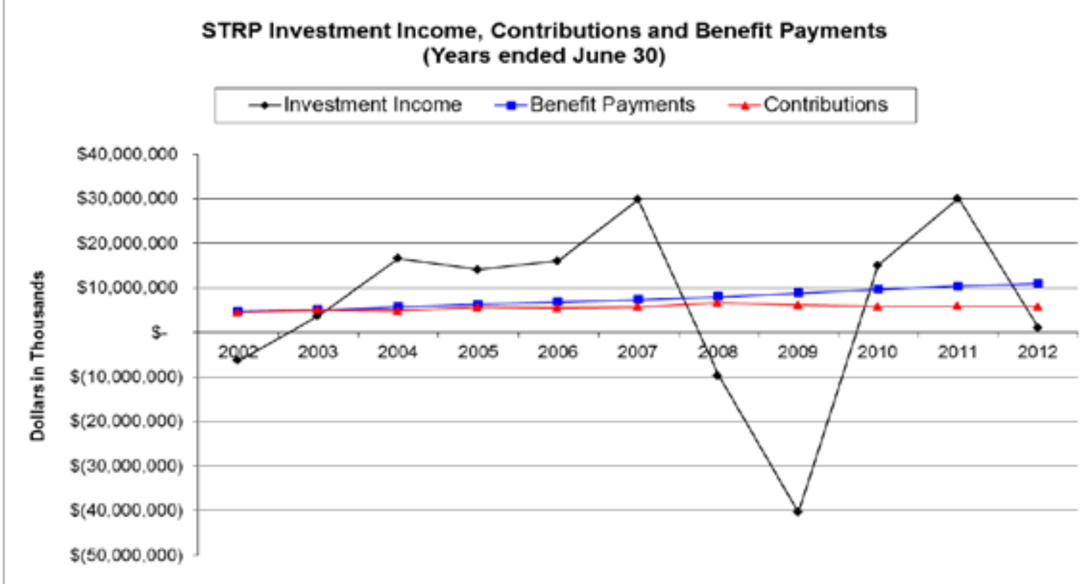
	Actuarial Value of Assets			Market Value of Assets
Investment Return Assumption	Funded Ratio	UAAL	Total Required Contribution	UAAL
5.00%	50%	$ 142,485	56.087%	$146,375
6.00%	57%	$ 106,249	44.927%	$110,139
7.00%	65%	$ 76,733	35.629%	$ 80,623
7.50%	69%	$ 63,840	31.413%	$ 67,730
7.75%	71%	$ 57,868	29.471%	$ 61,758
8.00%	73%	$ 52,200	27.528%	$ 56,090

Based on the June 30, 2011 Actuarial Valuation.

The information presented in the Total Required Contribution column represents the total contributions needed from employers, members and the state as a percentage of covered payrolls, to meet the 30-year funding goal. The last column in the table reflects the unfunded actuarial accrued liabilities using the market value of assets, which provides a picture of what the unfunded actuarial accrued liabilities would be if the asset losses that occurred during fiscal year 2008-09 and asset gains that occurred during fiscal years 2009-10 and 2010-11 were immediately recognized.

The most recent actuarial valuation indicates that the DB Program is underfunded, with 69 percent of the funds needed to pay the actuarial cost of the benefits accrued as of June 30, 2011. This is a decrease of 2 percent from the 71 percent estimated funded ratio as of June 30, 2010.

The following chart is a 10-year historical comparison of investment income (including unrealized gains and losses), employer contributions and benefit payments.



The graph shows there is a growing gap between contributions and benefit payments, a sign of a mature pension system. In the long run, investment returns alone will not be able to bridge this gap. CalSTRS will need a significant increase in revenue to make progress toward the funding target. There are sufficient assets to make benefit payments for at least 30 years, but the projected time horizon before assets are depleted is expected to become shorter and shorter; at that point benefits will have to be paid on a "pay as-you-go basis." Deferring contribution increases and providing for a gradual increase in rates over time is possible; the cost of waiting increases the total long-term costs of the plan.

INVESTMENTS

CalSTRS primary goal is to maintain a financially sound retirement system. CalSTRS investment philosophy is "long-term patient capital – buying long term net cash flows and capital gain potential at a reasonable price." The investment portfolio is broadly diversified into seven asset classes and the Board sets the asset allocation targets. The fiscal year 2011-12 goals and targets for the investments were to:

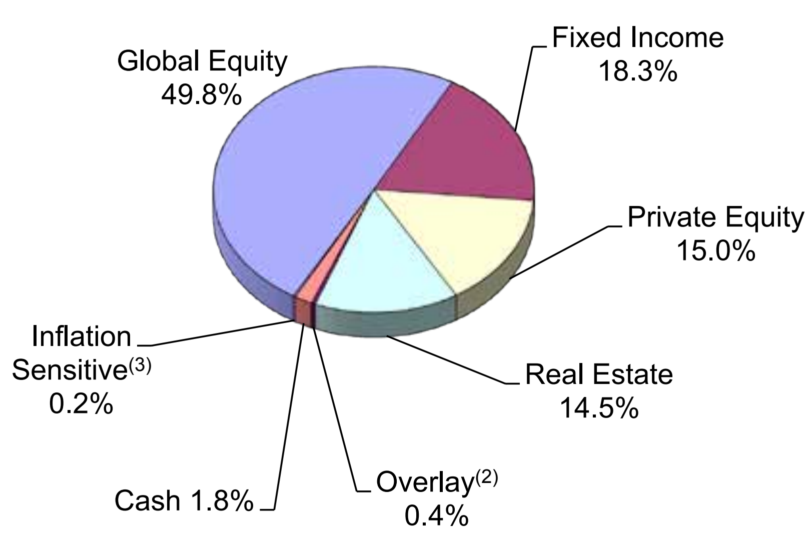
1. Earn at least an absolute return equal to the Board's assumed rate per year, over 20 to 30 years;
2. Outperform the Policy Benchmark portfolio by 60 basis points annually without excess risk, and;
3. Prudently diversify the portfolio and strive for lower costs.

The CalSTRS Investment Portfolio posted an approximate 1.84 percent one-year return calculated on a time-weighted performance basis for fiscal year 2011-12 The market value of the Investment Portfolio, including securities lending collateral, was $174.3 billion at June 30, 2012. The performance based one-year return differs from financial statement results primarily due to the quarter lag in the annual performance data for private assets in the time-weighted performance calculation; for the June 30, 2012 financial statements the values and returns for the private equity and real estate portfolio are adjusted to reflect results as of June 30, 2012. Although the one-year return was well below the actuarial assumed rate of 7.50 percent, the average return for the last three years is 12 percent. Furthermore, CalSTRS has generated a 7.5 percent return over the last 20 years.

ASSET ALLOCATION

The following chart provides the distribution of total fund investments as of June 30, 2012.[1]

Asset Allocation as of June 30, 2012



Representing 50 percent of the total investments, the Global Equity Portfolio is comprised of U.S., Non-U.S. Developed Countries and Emerging Markets equity securities. The Global Equity Policy sets allocation targets of 67 percent and 33 percent to U.S. securities and Non-U.S. securities, respectively. Approximately 64 percent of the Global Equity assets are managed externally, while the remaining 36 percent is passively managed by CalSTRS investment staff.

The Fixed Income Portfolio is comprised of investment grade and non-investment grade securities, both U.S. dollar based and non-U.S. dollar based. The Fixed Income Portfolio includes core and opportunistic fixed income strategies which, in aggregate, are structured to achieve a long-term total return consistent with the Board-adopted Policy Benchmark. Fixed Income assets are primarily managed internally with approximately 85 percent of the portfolio using an enhanced indexing strategy,

[1] Asset allocation presented is based on portfolio management approach.
[2] Overlay is a new asset class adopted by the Board in April 2012.
[3] Inflation Sensitive was changed from Absolute Return in July 2011.

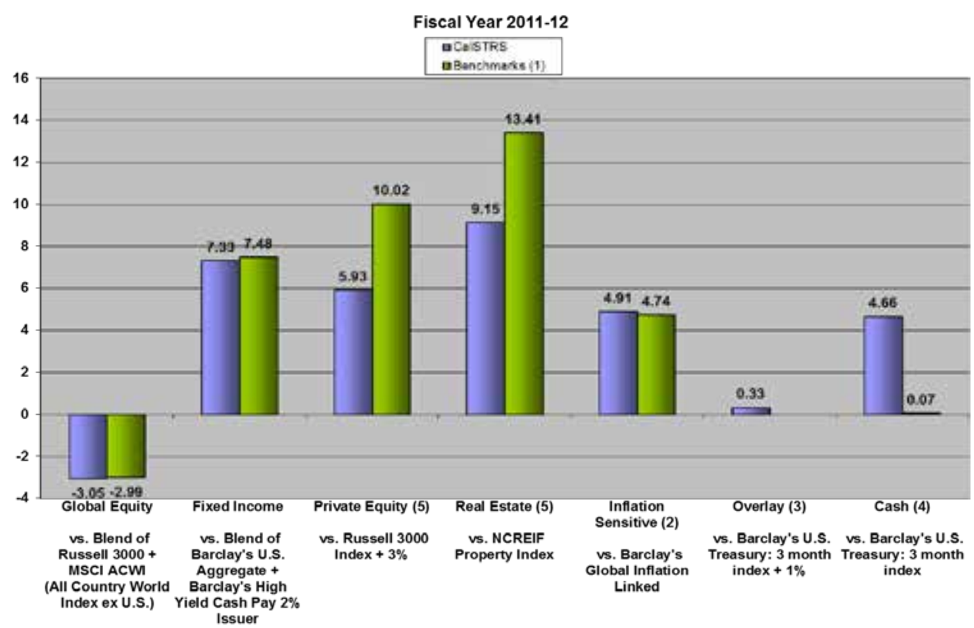
while 15 percent is externally managed using a broader universal fixed income and high yield securities opportunity set.

The Private Equity Portfolio is comprised of limited partnerships and co-investments focusing on commitments to domestic and non-U.S. partnerships as identified in the Private Equity Policy. Types of investment strategies include leveraged buyouts, venture capital, expansion capital, distressed debt and mezzanine investments. Private Equity has substantial fees and costs associated with each investment; consequently, emphasis is placed on negotiating, monitoring and controlling the direct and indirect costs of each limited partnership investment.

The Real Estate Portfolio is comprised of investments in wholly-owned properties, joint venture/value added investments, and commingled funds. Approximately 15 percent of the investment portfolio represents non-U.S. assets. Leverage has been reduced to the new levels set by the Board while the core portfolio has been increased from a low of 25 percent to 37 percent as of June 30, 2012. To more closely align the interests of CalSTRS and the real estate managers, emphasis is placed on negotiating, monitoring, and controlling the cash flow (both income and expense) associated with each property.

PERFORMANCE VS. BENCHMARKS

The following is a comparison of the CalSTRS returns calculated on a time-weighted performance basis by asset class versus Board approved benchmarks as of June 30, 2012:



[1] All public market benchmarks exclude tobacco.
[2] Inflation Sensitive was changed from Absolute Return as of July 2011.
[3] Overlay is a new asset class adopted by the Board in April 2012. Annual benchmark returns are unavailable for asset classes not represented for a complete fiscal year.
[4] The Cash portfolio includes short term investments as well as income from the Securities Lending Program, the Credit Enhancement Program, securities litigation and other sources.
[5] Benchmarks and returns for Private Equity and Real Estate are as of 3/31/2012.

Fiscal year 2011-12 was a challenging period for the global equity markets as the MSCI All Country World Index declined nearly 7 percent. The equity markets were extremely volatile during the year as poor macroeconomic news and positive microeconomic data continued their tug-of-war on investor sentiment. During the first half of the fiscal year, U.S. equities were down over 5 percent, despite positive earnings growth. The combination of Congress reaching a political deadlock regarding the debt ceiling and the U.S. losing its AAA credit rating from Standards & Poor's significantly weighed on investor confidence. Non-U.S. equities fared even worse during the first half of the fiscal year, falling over 17 percent, as the European sovereign debt crisis continued to escalate and fears of contagion intensified. At the onset of the 2012 calendar year, global equities rallied sharply through February as investor sentiment was lifted by encouraging economic data in the U.S. and the coordinated actions of global central banks to provide funding to European banks. However, the markets quickly reversed course and declined for the duration of the fiscal year as concerns over the European sovereign debt crisis reemerged and global economic growth showed signs of slowing. The performance of the Global Equity Portfolio is reflective of all the shifts in the domestic and international markets as well as the global economic turmoil over the fiscal year.

Similar to the global equity markets, the fixed income markets reflected continued volatility to concerns over Europe and a slowing global economy. The markets began 2012 with a positive tone as investors started to put some of their cash back to work. U.S. economic data came in better than expected, supporting an improving U.S. economy. This positive data, along with the Federal Reserve's continued commitment to keep interest rates low, provided support to the debt markets. The demand for yield was met with a record of new issuance as companies took advantage of the low interest rate environment. Towards the end of the fiscal year, renewed concerns over the sustainability of the Eurozone caused investors to flock towards safe debt securities. Riskier assets (i.e., non-government securities) were undermined by an overall lack of confidence created by massive uncertainty over political gridlock abroad and in the U.S. Although the swings in the risk appetite of the market throughout the fiscal year caused volatility, the Fixed Income Portfolio generated a positive return of 7.3 percent, for the 12 months ending June 30, 2012, reflective of the portfolio's strategy of spread product (i.e. non-Treasury) overweight and emphasis on higher quality securities.

Private equity markets have shown increasing correlation to public equity markets over recent years [especially since the adoption of fair market value accounting in 2007 (FASB 157)]. However, the correlation is not straightforward; the performance of private equity markets has generally been lagged and muted relative to public equity markets due to the inherent delays associated with getting privately held assets appraised and other factors, i.e. price changes in the public equity markets have generally rippled through the Private Equity Portfolio over subsequent quarters and price shocks experienced in the public markets, both positive and negative, have generally translated to the private equity markets at lesser magnitudes. Reflecting public equity market volatility in fiscal year 2011-2012, the Russell 3000 Index + 3 percent (the Private Equity Portfolio benchmark) was up over 15 percent in the last quarter used for measuring private equity performance (March 2012). Based on past experience, the Private Equity Portfolio would not typically absorb such a large price shock immediately but would instead do so over subsequent quarters. Therefore, it is not surprising that after outperforming its benchmark by 1.8 percent during fiscal year 2010-2011, the Private Equity Portfolio underperformed its benchmark by 4.1 percent this fiscal year, generating a 5.93% return. Other macroeconomic factors that contributed to underperformance this year included weak capital markets (i.e., weak initial public offering and mergers and acquisitions markets) which inhibited private equity exits and the accompanying incremental valuation increases that such transactions typically bring about. Performance for the Private Equity Portfolio measured over a one-year period may not be indicative of long term results because of the long-term, illiquid nature of the asset class. Investments in the Private Equity Portfolio are typically held in a partnership for 3 to 5 years. Over the most recent three year annualized period, the Private Equity Portfolio has generated a 16.4 percent return.

For fiscal year 2011-2012, strong investment demand for quality real estate kept pricing robust despite a fragile macroeconomic environment, a weak housing market, high unemployment and an overleveraged consumer for most of the fiscal year. Real estate funds remained a preferred asset class during heightened market volatility as low interest rates and a slowly strengthening U.S. economy led to improving operating fundamentals for public real estate companies. However, real estate equity markets remained volatile due to impending US fiscal challenges, European sovereign debt issues and fears of a Chinese economic slowdown.

Performance of the Real Estate Portfolio is measured through appraisals and valuations completed on a quarterly and annual basis. The Portfolio generated positive returns but underperformed the benchmark. The Benchmark for Real Estate is changing in fiscal year 2012-13 from the NCREIF Index (which represents Unleveraged Core Assets in U.S.) to the ODCE index (which represents Leveraged Core Assets in U.S.). Although the new benchmark does not reflect the approximately 15.0 percent international portion of the portfolio, it does take into account the effects of leverage. Returns over a one year period are not typically indicative of long term results, but as the CalSTRS Real Estate Portfolio is in its second year of a planned five year transition to lower risk, continued positive performance with stable returns is expected. This will be predominantly accomplished by actively managing portfolio leverage and increasing the core portion of the portfolio to 50 percent of the overall portfolio. Over the most recent three year annualized period, the Real Estate Portfolio has generated a 3.9 percent return.

LEGISLATIVE UPDATE

Consistent with CalSTRS mission, the Board authorizes staff to engage in the legislative process to prevent and remove obstacles that impair the ability of CalSTRS members to achieve financial security. Legislative topics related to CalSTRS during the period ending June 30, 2012 included several bills intended to implement pension reform proposals, including measures intended to prevent spiking such as limitations on annual pension benefits and final compensation. Refer to Note 7 for information on pension reform legislation subsequent to the end of the fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of CalSTRS finances. For questions concerning the information in this report or for additional information contact CalSTRS, P.O. Box 15275, Sacramento, CA 95851-0275.

Respectfully submitted,

Robin Madsen
Chief Financial Officer

California State Teachers' Retirement System
Statement of Fiduciary Net Assets
As of June 30, 2012 (with Comparative Totals as of June 30, 2011)
(Dollars in Thousands)

	State Teachers' Retirement Plan	Pension2 403 (b) Plan	Pension2 457 Plan	Teachers' Health Benefits	Teachers' Deferred Compensation	Comparative Totals 2012	Comparative Totals 2011
Assets							
Investments, at fair value:							
Short term	$ 2,449,572	$ 13,682	$ 1,452	$ 541	$ 869	2,466,116	$ 2,567,358
Debt securities	28,673,273	-	-	-	-	28,673,273	28,205,345
Global equity securities	73,444,437	-	-	-	-	73,444,437	80,580,320
Mutual funds	-	231,608	6,208	-	-	237,816	217,125
Guaranteed annuity contracts	-	101,179	1,522	-	-	102,701	81,398
Inflation sensitive	313,410	-	-	-	-	313,410	2,771,698
Private equity investments	22,513,367	-	-	-	-	22,513,367	22,951,138
Real estate investments	22,691,550	-	-	-	-	22,691,550	18,865,311
Overlay	566,315	-	-	-	-	566,315	-
Securities lending collateral	23,689,628	-	-	-	-	23,689,628	25,200,355
Total investments	174,341,552	346,469	9,182	541	869	174,698,613	181,440,048
Cash and cash equivalents	1,633,159	-	-	1	1	1,633,161	428,254
Receivables:							
Investments sold	630,787	-	-	-	-	630,787	691,357
Interest and dividends	379,193	-	-	2	1	379,196	419,880
Member, employer and other	686,505	4,851	98	-	87	691,541	656,358
Total receivables	1,696,485	4,851	98	2	88	1,701,524	1,767,595
Capital assets, net of accumulated depreciation	244,507	-	-	-	-	244,507	243,875
Total assets	177,915,703	351,320	9,280	544	958	178,277,805	183,879,772
Liabilities							
Investments purchase payable	1,557,997	-	-	-	-	1,557,997	1,919,700
Foreign currency forward contracts (net)	1,025	-	-	-	-	1,025	1,224
TALF loan payable	15,558	-	-	-	-	15,558	25,985
Master credit facility payable	995,600	-	-	-	-	995,600	-
Benefits in process of payment	78,049	-	-	1	-	78,050	917,183
Other liabilities	214,808	988	-	105	816	216,717	83,480
Securities lending obligation	23,734,609	-	-	-	-	23,734,609	25,272,058
Total liabilities	26,597,646	988	-	106	816	26,599,556	28,219,630
Net assets held in trust for pension and other postemployment benefits	$ 151,318,057	$ 350,332	$ 9,280	$ 438	$ 142	$ 151,678,249	$ 155,660,142

The accompanying notes are an integral part of these financial statements.

California State Teachers' Retirement System
Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended June 30, 2012
(with Comparative Totals for the Fiscal Year Ended June 30, 2011)
(Dollars in Thousands)

	State Teachers' Retirement Plan	Pension2 403 (b) Plan	Pension2 457 Plan	Teachers' Health Benefits	Teachers' Deferred Compensation	Comparative Totals 2012	Comparative Totals 2011
Additions							
Contributions:							
Member contributions	$ 2,279,900	$ 53,111	$ 6,877	$ -	$ -	$ 2,339,888	$ 2,404,379
Employer contributions	2,237,983	188	37	34,614	-	2,272,822	2,346,663
State of California	1,302,581	-	-	-	-	1,302,581	1,193,364
Total contributions	5,820,464	53,299	6,914	34,614	-	5,915,291	5,944,406
Investment Income (Loss):							
Net appreciation (depreciation) in fair value of investments	(2,588,804)	1,623	159	-	-	(2,587,022)	26,626,516
Interest, dividends and other	3,712,023	4,509	60	8	770	3,717,370	3,498,336
Securities lending income	158,280	-	-	-	-	158,280	157,695
Less investment expenses:							
Cost of lending securities	(34,308)	-	-	-	-	(34,308)	(58,260)
Reverse repurchase agreement	(6,422)	-	-	-	-	(6,422)	(141)
Other borrowing expenses	(17,142)	-	-	-	-	(17,142)	(933)
Other investment expenses	(152,307)	-	-	-	-	(152,307)	(148,490)
Net investment income	1,071,320	6,132	219	8	770	1,078,449	30,074,723
Other income	4,115	-	-	-	-	4,115	6,546
Total additions	6,895,899	59,431	7,133	34,622	770	6,997,855	36,025,675
Deductions							
Retirement, disability, death and survivor benefits	10,442,523	-	-	-	-	10,442,523	9,854,492
Premiums paid	-	-	-	34,412	-	34,412	35,785
Distributions and withdrawals	-	19,978	19	-	-	19,997	16,772
Purchasing power benefits	234,612	-	-	-	-	234,612	237,572
Refunds of member contributions	108,111	-	-	-	-	108,111	116,089
Administrative expenses	138,411	606	8	370	698	140,093	111,938
Total deductions	10,923,657	20,584	27	34,782	698	10,979,748	10,372,648
Net increase (decrease)	(4,027,758)	38,847	7,106	(160)	72	(3,981,893)	25,653,027
Net assets held in trust for pension and other postemployment benefits							
Beginning of the year	155,345,815	311,485	2,174	598	70	155,660,142	130,007,115
End of the year	$ 151,318,057	$ 350,332	$ 9,280	$ 438	$ 142	$ 151,678,249	$ 155,660,142

The accompanying notes are an integral part of these financial statements.

1. Description of CalSTRS and Contribution Information

The California State Teachers' Retirement System (CalSTRS) is the administrator of a hybrid retirement system, consisting of a traditional defined benefit, cash balance and defined contribution plans, including disability and survivor benefits. CalSTRS provides pension benefits to California full-time and part-time public school teachers from preschool through community college and certain other employees of the public school system. The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature, established these plans and programs and CalSTRS as the administrator. CalSTRS is a component unit of the State. These financial statements include only the accounts of CalSTRS. The state includes CalSTRS various plans and funds as fiduciary funds in its financial statements.

State Teachers' Retirement Plan

The State Teachers' Retirement Plan (STRP) is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and the Replacement Benefit Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of the Defined Benefit Program, the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust.

STRP Defined Benefit Program

The Defined Benefit Program is a defined benefit pension plan. At June 30, 2012, there were 1,712 contributing employers (charter schools, school districts, community college districts, county offices of education and regional occupational programs). The state is also an employer and contributor to the Defined Benefit Program. Membership is mandatory for all employees meeting certain statutory requirements, and optional for all other employees performing creditable service. At June 30, 2011, membership consisted of:

	2011
Active Members	
Vested	322,438
Nonvested	107,162
Inactive Members	173,719
Retirees and Benefit Recipients	253,041
Total Members, Retirees and Beneficiaries	**856,360**

Information above is the most recent available as of June 30, 2012.

The Defined Benefit Program provides defined retirement benefits based on members' final compensation, age, and years of service credit. In addition, the retirement program provides benefits to members upon disability, and to survivors/beneficiaries upon the death of eligible members. Benefit provisions include:

- After five years of credited service, members become 100 percent vested in retirement benefits. Members are eligible for normal retirement at age 60. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service. Early retirement options are available at age 55 or as early as age 50 with 30 years of credited service. The age factor for retirements after age 60 increases with each quarter year of age to 2.4 percent at age 63 or older. Members who have 30 years or more of credited service receive an additional increase of up to 0.2 percent to the age factor. In no event does the total benefit age factor exceed 2.4 percent.

- CalSTRS calculates retirement benefits based on a one-year final compensation for members who retire on or after January 1, 2001, with 25 or more years of credited service, or for classroom teachers with less than 25 years of credited service if the employer elects to pay the additional benefit cost. One-year final compensation means a member’s highest average annual compensation earnable calculated by taking the creditable compensation that a member could earn in a school year while employed, on a full-time basis, for a position in which the person worked. For all other members, final compensation is defined as the highest average annual compensation earned during any three consecutive years of credited service.

- Members who retire on or after January 1, 2001, and accumulated at least 30 years of credited service by December 31, 2010, will receive a longevity bonus of $200, $300 or $400 per month for 30, 31 or 32 or more years of credited service, respectively.

- After five years of credited service, a member (prior to age 60 if under Coverage A, no age limit if under Coverage B, as defined in Education Code Sections 24001 and 24101, respectively) is eligible for disability benefits of up to 50.0 percent of final compensation plus 10.0 percent of final compensation for each eligible child, up to a maximum addition of 40.0 percent. The member must have a disability that will exceed a period of twelve or more months to qualify for a benefit.

- A family benefit is available if an active member dies and has at least one year of credited service.

- Members' accumulated contributions are refundable with interest upon separation from CalSTRS. The Board determines the credited interest rate each fiscal year. For the year ended June 30, 2012, the rate of interest credited to members' accounts was 0.75 percent.

- There is a cost of living postretirement annual benefit adjustment increase of 2.0 percent per year on a simple (rather than compound) basis.

Purchasing power protection is provided to members of the Defined Benefit Program through the Purchasing Power Protection Program. Annual distributions (in quarterly payments) to retired and disabled members and beneficiaries restore purchasing power up to 85.0 percent of the initial monthly allowance. Funding for the Purchasing Power Protection Program is from School Lands Revenue and the Supplemental Benefit Maintenance Account (SBMA). Public Resources Code Section 6217.5 allocates School Lands Revenue for the program. At June 30, 2012, CalSTRS has a receivable balance from the sale of the Elk Hills Naval Petroleum Reserve in the amount of $15.6 million. The state is required to contribute an amount equal to 2.5 percent of the total of the creditable compensation of the fiscal year ending in the immediately preceding calendar year, which is reduced in accordance with Education Code Section 22954(c), to fund the SBMA. In addition, the state is required to make additional payments through fiscal year 2012-13 in accordance with Education Code 22954.5 to pay interest on the judgment in the case of Teachers' Retirement Board v. Genest and Chiang. In fiscal year 2011-12, the amount contributed by the state to the SBMA was $609.5 million, excluding School Lands Revenue.

Contributions

Required member, employer and state contribution rates are set by the California Legislature and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method. CalSTRS also uses the level percentage of payroll method to calculate the amortization of any unfunded liability.

A summary of statutory contribution rates and other sources of contributions to the Defined Benefit Program are as follows:

Members - 8.0 percent of applicable member earnings.

Employers - 8.25 percent of applicable member earnings.

State - 2.017 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year. State contributions totaled $546.8 million in fiscal year 2011-12.

Additionally, beginning October 1, 1998, a statutory contribution rate of 0.524 percent, adjustable annually in 0.25 percent increments up to a maximum of 1.505 percent, of the creditable earnings from the fiscal year ending in the prior calendar year per Education Code Section 22955(b). This contribution is reduced to zero if there is no unfunded actuarial obligation and no normal cost deficit for benefits in place as of July 1, 1990. Based on the actuarial valuation, as of June 30, 2010, there was no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. As a result, the state was required to contribute additional quarterly payments starting October 1, 2011, at an additional contribution rate of 0.524 percent. As of June 30, 2012, the state has contributed $106.5 million of the $142 million total amount for fiscal year 2011-12. The fourth quarterly payment of $35.5 million will be transferred on July 1, 2012.

As of the June 30, 2011 actuarial valuation, there was no normal cost deficit but there was an unfunded obligation for benefits in place as of July 1, 1990. As a result, the state is required to contribute quarterly payments starting October 1, 2012 at an additional contribution rate of 0.774 percent.

STRP Defined Benefit Supplement Program
The Defined Benefit Supplement Program, established pursuant to Chapter 74, Statutes of 2000 (AB 1509), is a defined benefit pension program that operates within the STRP. All persons who were active members of the Defined Benefit Program on or after January 1, 2001, are also members of the Defined Benefit Supplement Program.

Interest is credited to the nominal Defined Benefit Supplement Program accounts at the minimum guaranteed annual rate established by the Board prior to each plan year, which was 4.25 percent for the fiscal year ended June 30, 2012. The Board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the minimum guaranteed annual rate and meet criteria set out in Board policy. Per the Board policy there were no additional earnings or additional annuity credits granted for the fiscal year ended June 30, 2012.

Contributions
Beginning July 1, 2002, for service in excess of one year of service credit within one fiscal year, the member contributions of eight percent and employer contributions of eight percent are credited to the members' nominal Defined Benefit Supplement Program account. Also, contributions for compensation as a result of retirement incentives or limited term enhancements are credited to the members' Defined Benefit Supplement Program account.

STRP Cash Balance Benefit Program
The Cash Balance Benefit Program, established under Chapter 592, Statutes of 1995 and subsequently merged into the STRP by Chapter 1048, Statutes of 1998 (SB 2085), is a defined benefit pension program. The Cash Balance Benefit Program is designed for employees of California's public schools who are hired to perform creditable service for less than 50 percent of the full-time equivalent for the position. Participation in the Cash Balance Benefit Program is optional to school districts, community college districts, county offices of education and regional occupational programs. A school district, community college district, county office of education or regional occupational program may elect to offer the Cash Balance Benefit Program. Under such election, the program will automatically cover each eligible employee, unless the employee elects to participate in the Defined Benefit Program or an alternative plan provided by the employer within 60 days of hire or the election period determined by the employer.

Interest is credited to the nominal Cash Balance Benefit Program accounts at the minimum guaranteed annual rate established by the Board prior to each plan year, which was 4.25 percent for the year ended June 30, 2012. The Board may credit additional earnings to members' nominal accounts if actual investment earnings exceed the minimum guaranteed annual rate and meet criteria set out in Board policy. Per the Board policy there were no additional earnings or additional annuity credits granted for the fiscal year ended June 30, 2012.

Contributions
A summary of statutory contribution rates for the Cash Balance Benefit Program is as follows:

Participants	-	4.0 percent of applicable participant's earnings
Employers	-	4.0 percent of applicable participant's earnings

Employers may enter into a collective bargaining agreement to pay different rates if certain minimum conditions are met. At June 30, 2012, there were 33 contributing school districts and 33,888 contributing participants.

STRP Replacement Benefit Program

The STRP Replacement Benefit Program is an excess benefits arrangement for Defined Benefit Program members that is administered as a qualified excess benefit arrangement through a separate pension program apart from the other three STRP programs, and established in accordance with Internal Revenue Code (IRC) Section 415(m). IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The program is funded as needed. Contributions that would otherwise be credited to the Defined Benefit program each month are instead credited to the Replacement Benefit Program to fund monthly program costs. Monthly employer contributions are received and paid to members in amounts equivalent to the benefits not paid as a result of IRC Section 415(b), subject to withholding for any applicable income or employment taxes. At June 30, 2012, there were 272 retirees, beneficiaries, and non-member spouses receiving benefits from the Replacement Benefit Program.

CalSTRS Pension2 Program

Pursuant to Chapter 291, Statutes of 1994, CalSTRS Pension2 (Pension2) was established to include two tax-deferred defined contribution plans under Internal Revenue Code (IRC) sections 403(b) and 457. TIAA-CREF is responsible for administrative services, including custody and record keeping services, while CalSTRS performs the investment management functions of determining, monitoring and maintaining the plan's investments.

As of June 30, 2012, the IRC 403(b) and 457 plans had approximately 6,922 and 317 plan participants with account balances and approximately 708 and 20 participating employers (school districts), respectively. Pension2 is available to all full-time California pre-kindergarten through community college district and county office of education employees. Part-time employees' eligibility is determined by their employers. Enrollment in the 457 plan is by adoption only. Employee contributions to the plans are voluntary and require no minimum limitations; however, the IRC imposes an annual maximum amount that can be contributed to the plans.

The Pension2 investments are comprised of a selection of mutual funds with underlying investments that include stocks, bonds and real estate, and guaranteed annuity contracts which are participant directed. The Pension2 benefits are the accumulation of contributions and investment earnings credited to the member's account.

Teachers' Health Benefits Fund

The Teachers' Health Benefits Fund (THBF) was established pursuant to Chapter 1032, Statutes of 2000 (SB 1435) which also established the Medicare Premium Payment Program (MPP Program), a cost-sharing multiple-employer other postemployment benefit plan paid from the THBF, to retired members of the Defined Benefit Program. At June 30, 2012, there were 7,730 retirees participating in the MPP Program. The number of active members and terminated vested members who will participate in the program after they retire is unknown because eligibility cannot be predetermined.

The MPP Program was established to pay Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for Defined Benefit Program members who had retired or would retire prior to July 1, 2001 and who meet certain other eligibility criteria. Subsequently the MPP Program has been extended several times. On April 5, 2007, the Board extended the MPP Program to members who retired or will retire prior to July 1, 2012. The Board has taken no further action to extend the program.

Contributions

The MPP Program is funded on a pay-as-you go basis from a portion of the monthly Defined Benefit Program statutory employer contributions. Contributions that would otherwise be credited to the STRP each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total costs do not exceed the amount initially identified as the cost of the program.

Teachers' Deferred Compensation Fund

The Teachers' Deferred Compensation Fund (TDCF) was established pursuant to Chapter 655, Statutes of 2006 (SB 1466) and used to account for ancillary activities associated with various deferred compensation plans and programs offered by CalSTRS to enhance the tax-deferred financial options for the members and their beneficiaries.

The TDCF is funded by the fee revenues received by CalSTRS from deferred compensation plans, a vendor registration program, and an employer compliance assistance program.

On September 1, 2011 CalSTRS entered into a five-year Open Architecture Bundled Administration Agreement with Los Angeles Unified School District (LAUSD) to provide certain recordkeeping and administrative services for the Los Angeles Unified School District 457(b) Plan (LAUSD 457(b) Plan). CalSTRS has determined that LAUSD retains investment fiduciary responsibilities for the LAUSD 457(b) Plan. Therefore, CalSTRS has not included the LAUSD 457(b) Plan assets, liabilities and associated changes within its Statement of Fiduciary Net Assets nor the Statement of Changes in Fiduciary Net Assets. At June 30, 2012 the fair value of LAUSD 457(b) plan assets was $38 million. The fees CalSTRS receives in association with the services provided under this agreement are accounted for within the TDCF.

2. Summary of Significant Accounting Policies

Basis of Accounting

CalSTRS maintains its accounting records using the accrual basis of accounting. It recognizes member contributions in the period in which the contributions are earned. Furthermore, CalSTRS recognizes employer and state contributions when earned and the employer or state has made a formal commitment to provide the contributions. Also, CalSTRS recognizes benefits when due and payable in accordance with its retirement and benefits programs. Purchases and sales of investments are recorded on the trade date. Interest income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date.

Use of Estimates in the Preparation of Financial Statements

The preparation of CalSTRS financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect certain financial statement amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit and highly liquid financial instruments with original maturities of 90 days or less. Cash equivalents held by CalSTRS include repurchase agreements, foreign currency, and deposits with the State Treasury.

Investments
CalSTRS investments held at June 30, 2012, are either in the custody of State Street Bank, CalSTRS master custodian, TIAA-CREF, administrator for Pension2, and/or in CalSTRS name. State statutes and Board policies allow investments consisting of government, corporate and international debt securities, global equities, mutual funds, guaranteed annuity contracts, inflation sensitive, overlay, private equities, real estate and other investments.

In the Statement of Changes in Fiduciary Net Assets, CalSTRS presents the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains and losses on securities sold and the unrealized appreciation (depreciation) on those investments still held in the portfolio.

The value and performance of CalSTRS investments are subject to various risks, including credit risk, interest rate risk, concentration of credit risk, custodial credit risk and foreign currency risk, which are in turn affected by economic and market factors impacting certain industries, sectors or geographies. See Note 4 for disclosures related to these risks.

Investments are reported at fair value. The diversity of the investment types in which CalSTRS has entered into requires a wide range of techniques to determine fair value. The overall valuation processes and information sources by major asset classification are as follows:

Short Term
Short-term investments consist primarily of money market funds, certificates of deposit and similar instruments with maturities of less than one year. Short term investments are reported at fair value or at cost or amortized cost, which approximates fair value. For those investments which are reported at fair value, the investments are valued using similar methodologies as described within the debt securities section below.

Debt Securities
Debt securities consist primarily of negotiable obligations of the U.S. government and U.S. government-sponsored agencies, corporations, securitized offerings backed by residential and commercial mortgages and foreign debt securities. Certain debt securities, such as U.S. government bonds, have an active market for identical securities. These securities can typically be valued using the close or last traded price on a specific date. The majority of other debt securities are not as actively traded and are thus valued by pricing vendors using modeling techniques that include market observable inputs required to develop a fair value. Typical inputs include recent trades, yields, price quotes, cash flows, maturity, credit ratings and other assumptions based upon the specifics of the investments' type.

Global Equity
The majority of global equity securities held by CalSTRS are actively traded on major stock exchanges. These exchanges make information on trades of securities available daily on a last trade or official close basis. If such information is not available, other pre-established means are used to determine a price.

In addition, CalSTRS holds majority limited partner positions in corporate governance funds, which employ specific investment strategies, and co-investments including, but not limited to, publicly traded equity securities of companies on U.S., Canadian, and European exchanges to achieve long-term capital appreciation. These limited partnerships have been valued using the net asset value (NAV) of the entity, with the most significant input into the NAV being the value of its investment holdings. The general partners obtain prices for their holdings in a manner similar to that described above for CalSTRS global equity holdings.

Mutual Funds
Mutual funds are held on behalf of individual participants in Pension2. These are open-ended funds that are priced daily at NAV by the fund sponsor based generally upon the exchange traded last or official closing price of the securities held by the fund.

Guaranteed Annuity Contracts
Pension2 offers the TIAA Traditional Annuity, which is a guaranteed annuity contract, to program participants. This investment option guarantees the participant's contributions plus a specified minimum interest rate. Rates and certain account features vary depending on the type of annuity contract held by the participant. The actual rate of return will also vary from year to year at the TIAA Board of Trustee's discretion. CalSTRS allocation in the TIAA Traditional Annuity is carried at contract value, which approximates fair value.

Inflation Sensitive
Effective July 1, 2011, the Board approved the Investment Policy and Management Plan changing the asset class name of absolute return to inflation sensitive. The inflation sensitive portfolio holds investments in global inflation-indexed bonds (also known as inflation-linked bonds) and investments in infrastructure. Global inflation-indexed bonds are bonds where the principal is indexed to inflation. The CalSTRS portfolio consists of inflation-linked bonds issued by the U.S., Canada, Japan, Australia and a wide range of European countries, representative of the countries reflected in the performance benchmark. The values of the U.S. inflation-protected debt securities are adjusted periodically based on the Consumer Price Index for Urban Consumers (CPI-U), which is calculated monthly by the U.S. Bureau of Labor Statistics. The U.S. inflation-protected securities are actively traded and the prices are readily available from pricing vendors. Similarly, the inflation-linked debt securities issued by a foreign government are also adjusted to reflect a comparable consumer inflation index by that government and the prices are also readily available from pricing vendors. CalSTRS invests as a limited partner in infrastructure fund(s), which is valued using a methodology similar to that described within the Private Equity section below. As of June 30, 2012, the inflation sensitive portfolio has approximately 94.5 percent and 5.5 percent invested in global inflation linked bonds and infrastructure, respectively.

Overlay
Effective April 1, 2012, the Board revised the Investment Policy and Management Plan, to create the new overlay asset class. The overlay asset class is comprised of three strategies, Stable Return, Innovation and Strategic Overlay. Stable Return consists of mortgage loans retained from the Home Loan Program, Innovation consists of alternative investment strategies and Strategic Overlay consists of currency and derivative strategies. Investments in mortgage loans primarily include first and second mortgage liens. Each loan is priced at cost with a discount applied for delinquencies over 90 days. The alternative strategy includes a global macro hedge fund and a risk-based manager. CalSTRS invests as a limited partner in a managed account for the hedge fund program and limited liability company for the risk-allocation program. CalSTRS alternative investments are valued using the net asset value of the partnership, similar to the methodology described within the Private Equity section below. Strategic Overlay strategies include the use of currency forwards and option contracts to protect the value of non-U.S. investments against foreign currency fluctuations, while also recognizing opportunities for additional return (alpha) generation within the currency markets. These contracts are valued using a variety of factors that may include the spot price of the underlying currency pair, the strike price, length of the contract, implied volatility and interest rates. As of June

30, 2012, the overlay portfolio has approximately 64.3 percent, 35.5 percent and 0.2 percent invested in mortgage loans, alternative funds and other overlay investments, respectively.

Private Equity
CalSTRS has invested as a limited partner in various funds, which employ specific investment strategies, and co-investments. The most common investment categories for these funds include leveraged buyouts, venture capital, expansion capital, distressed debt and mezzanine investments. The strategies of all such funds are long term and illiquid in nature. As a result, investors are subject to redemption restrictions which generally limit distributions and restrict the ability of limited partners to exit a partnership investment prior to its dissolution. CalSTRS private equity partnerships are valued using their respective NAV calculated in accordance with the general partner's fair valuation policy as of the measurement date, and are audited annually. CalSTRS receives these audited financial statements including valuation results from the general partners. CalSTRS reviews valuation policies for a sample of general partners on a periodic basis. The most significant input into the NAVs of such an entity is the fair value of its investment holdings. These holdings are valued by the general partners on a quarterly or semi-annual basis. The valuation assumptions are based upon the nature of the investment and the underlying business. The valuation techniques vary by investment type and involve a certain degree of expert judgment. As of June 30, 2012, the private equity portfolio has approximately 93.4 percent, 6.0 percent and 0.6 percent invested in funds, co-investments and other investments, respectively.

Real Estate
The real estate portfolio holds investments in commingled funds, joint ventures, wholly-owned properties, and debt instruments including, but not limited to, seller-financed loans, notes and preferred equity. Leverage may be used to enhance investment returns as set forth in the CalSTRS Real Estate Investment Policy.[1] Wholly-owned properties are income-producing properties including retail, office, industrial, and multi-family residential. CalSTRS, as limited partner or member partner, has invested in joint ventures and open-end and closed-end commingled funds that are managed by the general partner or managing partner of each entity. Beginning January 2012, wholly-owned properties and joint ventures are subject to independent third party appraisals performed in accordance with the Uniform Standards of Professional Appraisal Practice annually. On a quarterly basis, fair values are estimated by the third party advisor or operating partner using general market and property specific assumptions, which are reviewed and approved by CalSTRS management.

Real estate investments in commingled funds are long term and illiquid in nature. As a result, investors are subject to redemption restrictions which generally limit distributions and restrict the ability of limited partners to exit a partnership investment prior to its dissolution. Limited partner interests in commingled funds are valued by CalSTRS using the NAV of the partnership provided by the general partner. The most significant input into the NAV of such an entity is the fair value of its investment holdings. These holdings are valued using the general partners' fair valuation policy on a continuous basis, audited annually and periodically appraised by an independent third party as directed by the governing document for each commingled fund investment. The valuation assumptions use both market and property specific inputs. The holding fair values are reviewed by CalSTRS quarterly to ensure they are accurately reported. As of June 30, 2012, the real estate portfolio has approximately 42.8 percent, 33.9 percent, 15.7 percent, 5.4 percent and 2.2 percent invested in commingled funds, joint ventures, wholly-owned properties, co-investments and other investments, respectively.

[1] See Note 4 regarding the Real Estate Investment Policy.

Investment Risk Management
CalSTRS enters into currency forwards and option contracts to protect the value of non-U.S. investments against foreign currency fluctuation. CalSTRS could be exposed to risk if the counterparties to the forward and option contracts are unable to meet the terms of their contracts. CalSTRS also enters into futures contracts to hedge risks in the equity and fixed income markets. The futures contracts are financial instruments that derive their value from underlying indices. CalSTRS seeks to minimize risk from counterparties by establishing minimum credit quality standards and maximum credit limits. See Note 4 for disclosures related to these risks.

Capital Assets
Capital assets held by CalSTRS, which consist of land, building, equipment, and intangible assets are recorded at cost and reflected on the Statement of Fiduciary Net Assets, net of accumulated depreciation/amortization. The capitalization threshold for capital assets is $1 million. Depreciation/amortization is charged to operations using the straight-line method on the estimated useful life of the related asset. Estimated useful lives range from one to five years for equipment, forty years for buildings, and a minimum of 5 years for amortizable intangible assets. Accumulated depreciation/amortization and depreciation/amortization expense through June, 2012 of fiscal year 2011-12 were $22.5 million and $8.3 million, respectively. CalSTRS reviews its capital assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. As of June 30, 2012, there has been no impairment of capital assets.

Administrative Expenses
The cost of administering the CalSTRS system is financed through contributions and investment earnings.

Income Taxes
The STRP and THBF are organized as a tax-exempt retirement plan under the IRC. Pension2, which includes IRC 403(b) and 457 plans, is organized as a tax-deferred supplemental program under the IRC. CalSTRS management believes that it has operated these funds and programs within the constraints imposed by federal tax law.

Investment Expenses
Expenses directly associated with investment management have been included as other investment expenses.

Securities Lending Transactions
CalSTRS reports securities lent, reinvested cash collateral, and the related liabilities resulting from securities lending transactions on the Statement of Fiduciary Net Assets. CalSTRS also reports the income earned and costs of lending securities as investment income and expenses on the Statement of Changes in Fiduciary Net Assets.

Reverse Repurchase Agreement Transactions
CalSTRS reports the liabilities resulting from the reverse repurchase agreements as obligations under reverse repurchase agreements and the underlying securities used as collateral are reported as investments on the Statement of Fiduciary Net Assets. Any interest cost associated with the reverse repurchase agreements is reported as investment expense on the Statement of Changes in Fiduciary Net Assets.

Reserves
CalSTRS maintains accounts within the Net Assets Held in Trust for Pension Benefits and Other

Postemployment Benefits as reserve accounts for various operating purposes. The Teachers' Retirement Law requires CalSTRS to maintain two types of reserve accounts within two programs of the STRP, the Defined Benefit Supplement Program and the Cash Balance Benefit Program. Teachers' Retirement Law requires CalSTRS to maintain an account for the SBMA.

Defined Benefit Supplement Annuitant Reserve

Part 13, Chapter 2 Section 22104.9 of the Teachers' Retirement Law, formed the Defined Benefit Supplement Annuitant Reserve to establish and maintain a segregated account for expenditures on annuities payable under the Defined Benefit Supplement Program. As a Defined Benefit member, members have a Defined Benefit Supplement account that accumulates contributions and interest. The Defined Benefit Supplement Program offers supplemental income in addition to their regular Defined Benefit program benefit. During a member's career, funds are accumulated in the Defined Benefit Supplement Member Reserve, and when a member retires the funds are converted to the Defined Benefit Supplement Annuitant Reserve.

Defined Benefit Supplement Gain and Loss Reserve

Part 13, Chapter 2 Section 22139.5 of the Teachers' Retirement Law, established the Defined Benefit Supplement Gain and Loss Reserve which represents a segregated account to maintain either: 1) credited interest to member Defined Benefit Supplement accounts at the minimum interest rate for plan years in which the obligation cannot be met from the plan's investment earnings, or 2) provide additions to the Annuitant Reserve to meet the plan's obligation for annuities payable under the Defined Benefit Supplement program. Funds are allocated monthly to the reserve account based on the gains and losses for the program.

Cash Balance Annuitant Reserve

Part 14, Chapter 2 Section 26105 of the Teachers' Retirement Law, established the Cash Balance Annuitant Reserve for the payment of monthly annuities with respect to the Cash Balance Program. The Cash Balance Program is a retirement program that can be an alternative to the CalSTRS Defined Benefit Program, Social Security and other retirement plans. During a member's career, funds are accumulated in the Cash Balance Participant Reserve. When a member retires, the funds are converted to the Cash Balance Annuitant Reserve.

Cash Balance Gain and Loss Reserve

Part 14, Chapter 2 Section 26202 of the Teachers' Retirement Law, established the Cash Balance Gain and Loss Reserve which represents funds to be drawn upon to the extent necessary to credit interest to participants' accounts at the minimum interest rate during years in which CalSTRS investment earnings with respect to the Cash Balance Program are not sufficient for that purpose, and where necessary, to provide additions to the Annuitant Reserve for monthly annuity payments. Based upon the recommendation of the actuary, the Board approves amounts, if any, that will be credited to the Cash Balance Gain and Loss Reserve account.

Supplemental Benefit Maintenance Account

Part 13, Chapter 8 Section 22400 of the Teachers' Retirement Law, established the Supplemental Benefit Maintenance Account to separately maintain and manage the annual supplemental payments disbursed in quarterly installments to all benefit recipients whose purchasing power has fallen below 85 percent of the purchasing power of the initial allowance as long as funds are available. The Supplemental Benefit Maintenance Account is primarily funded by contributions from the state, School Lands monies, and the earned interest on the SBMA reserve balance based on the actuarially assumed interest rate.

The reserve balances as of June 30, 2012, are summarized in the table below:

Reserve Type		Reserve Balance *(Dollars in Thousands)*
Defined Benefit Supplemental Annuitant Reserve	$	522,145
Defined Benefit Supplemental Gain and (Loss) Reserve		278,527
Cash Balance Annuitant Reserve		1,072
Cash Balance Gain and (Loss) Reserve		(1,813)
Supplemental Benefit Maintenance Account Reserve		8,283,302
Other Reserves Not Legally Required for Disclosure		142,595,016
Total	**$**	**151,678,249**

Reclassification
Certain reclassifications have been made to the comparative totals as of and for the year ended June 30, 2011 to conform to the presentation as of and for the year ended June 30, 2012. Reclassifications did not have an impact on net assets held in trust for pension and other postemployment benefits or net increase in net assets held in trust for pension and other postemployment benefits.

Comparative Totals
The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles in the United States of America. Accordingly, such information should be read in conjunction with CalSTRS financial statements for the year ended June 30, 2011, from which the summarized information was derived.

3. Funded Status

State Teachers' Retirement Plan

The funded status of the Defined Benefit Program, the Cash Balance Benefit Program and the Defined Benefit Supplement Program as of June 30, 2011, the most recent actuarial valuation date, is as follows (dollars in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
Defined Benefit Program	$ 143,930	$ 207,770	$ 63,840	69%	$ 26,592	240%
Cash Balance Benefit Program	$ 151	$ 144	$ (7)	105%	$ 158	(4)%
Defined Benefit Supplement Program	$ 8,055	$ 7,774	$ (281)	104%	$ 27,666	(1)%

As of June 30, 2011, the actuarial valuation report indicated that the actuarial value of assets does not include deferred losses of $3.9 billion, and that future revenue from contributions and appropriations for the Defined Benefit Program are not expected to be sufficient to finance its obligations. The Unfunded Actuarial Accrued Liability (UAAL) on a market basis would be $67.73 billion. Based on the current valuation results, the Defined Benefit Program assets, and the assumptions about future experience, CalSTRS consulting actuary finds that a level contribution rate of 32.343 percent beginning on the valuation date is projected to amortize the UAAL over a 30-year period. This level contribution rate includes the aforementioned deferred losses of $3.9 billion. The increase in level contribution rate would be equivalent to 12.925 percent of Earned Salaries for a period of 30 years from the valuation date.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of future legal funding limitations on the pattern of cost sharing between the state, employers and members. CalSTRS needs a significant increase in revenue to make progress towards its funding target. The projected revenue shortfall is due primarily to investment return experience over the last decade that was significantly less than the long-term actuarial assumption of 7.50 percent per year; however, CalSTRS has generated a 7.5 percent return over the last 20 years. The Defined Benefit Program assets are projected to be sufficient to make benefit payments through 2046, but the projected time horizon before the assets would be depleted (and benefits would have to be paid on a "pay-as-you-go" basis) will be shortened significantly if CalSTRS is not able to secure additional funding.

Teachers' Health Benefits Fund
The funded status of the MPP Program, as of June 30, 2010, the most recent actuarial valuation date, is as follows (dollars in millions):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
MPP Program	$ 1	$ 905	$ 904	0.1%	$ 5,011	18%

The above table shows the funded ratio of 0.1 percent from a financial reporting perspective. This ratio is determined using methodology based upon financial reporting requirements, which is different from the methodology used to develop the estimated cost to fund the program.

The estimated amount needed to fully fund the program, $635 million based on the June 30, 2011 actuarial valuation of the Defined Benefit Program, has not been transferred to the THBF. The estimated amount of future employer contributions required to fully fund the MPP Program is noted as a commitment and is explained further in Note 6.

Methods and Assumptions
Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Calculations are based on the benefits provided under the terms of the plan in effect at the time of each valuation.

Actuarial calculations reflect a long-term perspective and the actuarial methods and assumptions used for valuing the STRP and the MPP Program include techniques that are consistent with the calculations.

Additional information as of the latest actuarial valuation follows:

	Defined Benefit Program	Cash Balance Benefit Program
Actuarial Cost Method	Entry age normal	Traditional unit credit
Amortization Method	Level percent of payroll basis	Level percent of payroll basis
Amortization Period	Open	Open
Remaining Amortization Period	30 years	30 years
Asset Valuation Method	Expected value with 33% adjustment to market value	Fair value of net assets
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.00%
Interest on Accounts	4.50%	7.00%
Wage Growth	3.75%	3.75%
Consumer Price Inflation	3.00%	3.00%
Post-retirement Benefit Increases	2.00% simple	Not applicable

	Defined Benefit Supplement Program	MPP Program
Actuarial Cost Method	Traditional unit credit	Entry Age Normal
Amortization Method	Level percent of payroll basis	Level dollar basis
Amortization Period	Open	Closed
Remaining Amortization Period	30 years	25 years
Asset Valuation Method	Fair value of net assets	Fair value of net assets
Actuarial Assumptions:		
Investment Rate of Return	7.50%	4.00%
Interest on Accounts	7.50%	Not applicable
Wage Growth	3.75%	Not applicable
Consumer Price Inflation	3.00%	3.00%
Healthcare Cost Trend Rate Part A Premiums	Not applicable	5.00%
Healthcare Cost Trend Rate Part B Premiums	Not applicable	5.00%

4. Deposits and Investments

Deposits in the Pooled Money Investment Account (PMIA), administered by the State Treasurer, represent various investments with approximately 268 average days to maturity and are reported at amortized cost which approximates fair value. The State Treasury pools these monies with the monies of other state agencies for investing. The investment in the Short-term Investment Fund, administered by State Street Bank, represents various investments with approximately 31 average days to maturity and is reported at amortized cost which approximates fair value.

Repurchase agreement transactions as of June 30, 2012 have underlying collateral with fair values of approximately 102 percent of the cost of the repurchase agreement. The agreed-upon yields were 0.01 percent with maturity dates through July 2, 2012.

State of California statutes and Board policies permit CalSTRS to make short-term, collateralized loans of its securities to broker-dealers and other entities in order to earn incremental income. CalSTRS has contracted with third party securities lending agents and its custodian to lend global equity and debt securities. The majority of security loans can be terminated on demand by either CalSTRS or the borrower. The underlying securities on loan are reported as assets on the Statement of Fiduciary Net Assets. Collateral in the form of cash or other securities is required for 102 percent and 105 percent of the fair value of domestic securities and international equity securities loaned, respectively. For non-U.S. debt securities loaned, CalSTRS follows market practice which requires collateral of 102 percent of the fair value of the loaned securities. Since the majority of these loans are terminable at will, their duration does not generally match the duration of the investments made with the cash collateral. At June 30, 2012, the weighted duration difference between the investments and these loans was 30 days.

At June 30, 2012, the fair value of the securities on loan was $23.82 billion. The fair value of the re-invested cash collateral was $23.69 billion, the non-cash collateral was $512.85 million and the calculated mark was $166.94 million. At June 30, 2012, the calculated mark (additional collateral requested for the next business day) was due to CalSTRS for securities on loan. The securities lending cash collateral obligations were $23.73 billion. The invested collateral and corresponding obligation are reflected in the Statement of Fiduciary Net Assets as assets and liabilities, respectively. Due to the decline in the fair value in the re-invested cash collateral, the liability represented by the securities lending cash collateral obligation was greater than the re-invested cash collateral. The re-invested cash collateral securities in this program are typically held to maturity and expected to mature at par.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting on Securities Lending Transactions,* the non-cash collateral of $512.85 million is not reported in the Statement of Fiduciary Net Assets because CalSTRS is not permitted to pledge or sell these collateral securities received unless the borrower defaults. The contracts with the security lending agents require them to indemnify CalSTRS if the borrowers fail to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrowers fail to pay CalSTRS for income distributions by the securities' issuers while the securities are on loan.

Real Estate
Real estate investments are classified as investments in accordance with GASB Statement No. 25, *Financial Reporting for Defined Pension Plans and Note Disclosures for Defined Contribution Plans*. Certain real estate investments are leveraged through partnerships established to purchase properties through a combination of equity contributions from CalSTRS and other investors and through the utilization of debt. CalSTRS engages real estate advisors and operating partners who are responsible

for managing a portfolio's day-to-day activities, performance and reporting. At June 30, 2012 the estimated fair value of real estate investments (net of all outstanding debt) totaled approximately $22.7 billion. The CalSTRS share of outstanding debt is $10.2 billion, excluding obligations of limited partnership interests in commingled funds.

The CalSTRS portion of real estate debt service requirements includes both recourse and non-recourse loans. The chart below details the repayment of real estate debt, excluding obligations of limited partnership interests in commingled funds, as of June 30, 2012:

Real Estate Debt Service Requirements

(Dollars in Thousands)

	Principal	Interest	Total
Year Ended June 30, 2013	$ 1,575,004	$ 405,426	$ 1,980,430
2014	1,336,646	361,731	1,698,377
2015	2,187,312	292,443	2,479,755
2016	732,173	244,033	976,206
2017	1,572,601	186,516	1,759,117
2018 - 2022	2,586,746	297,696	2,884,442
2023 - 2027	107,634	23,465	131,099
2028 - 2032	11,744	20,538	32,282
2033 - 2037	61,069	17,321	78,390
2038 - Thereafter	31,769	10,948	42,717
Total	$ 10,202,698	$ 1,860,117	$ 12,062,815

Real estate debt currently bears interest at fixed and variable rates ranging from various LIBOR + 40 to 300 basis points (bps) as of June 30, 2012.

In fiscal year 2011-2012, CalSTRS entered into three (3) separate unsecured credit facilities (Master Credit Facility Portfolio). The proceeds from the Master Credit Facility Portfolio provide the source of funds for managing capital flows of investment strategies. As of June 30, 2012, the total available lines of credit in the Master Credit Facility Portfolio was $1.4 billion, the total principal amount borrowed was $995.6 million and the remaining amount available was $404.4 million. These lines of credit will mature between November 2014 and December 2014.

The CalSTRS Real Estate Investment Policy, effective June 2011, states that leverage shall be used to enhance investment returns. Careful consideration will be given to the impact of leverage on investment and portfolio risks. Leverage within each segment of the portfolio will be regularly monitored and reported to the Board for compliance. At June 30, 2012, the total leverage on the real estate portfolio, excluding obligations of limited partnership interests in commingled funds was 44.9 percent.

Term Asset-Backed Securities Loan Facility

The Federal Reserve Bank of New York (the Fed) created the Term Asset-Backed Loan Facilities Program (TALF) to help market participants meet the credit needs of households and small businesses by facilitating the issuance of certain Asset-Backed Securities and Commercial Mortgage-

Backed Securities. TALF provides non-recourse loans that are collateralized by newly originated or existing securities that meet specific credit quality and other program requirements.

At June 30, 2012, CalSTRS aggregate outstanding TALF loan balance was $15.6 million. The outstanding TALF loans have remaining maturities of 2 years and bear a variable rate of interest, which was 1.50 percent as of June 30, 2012. There are no regularly scheduled principal repayments on the loans; however, repayments of principal on the collateral securing such loans are used in part to repay principal on the loans in accordance with the terms of the Master Loan and Security Agreement with the Fed. Upon loan maturity, CalSTRS may repay the loans or surrender the collateral to the Fed in lieu of loan repayment.

Investment Risk Schedules

The following investment risk schedules disclose CalSTRS investments subject to certain types of risk, pursuant to GASB Statement No. 40. Each schedule discloses investments of all funds managed by CalSTRS subject to each type of risk, with the exception of interest rate risk which excludes Pension2. The primary investment types within the U.S. Government and Agency Obligations category are U.S. government securities, Government National Mortgage Association (GNMA), Freddie Mac (FHLMC), Fannie Mae (FNMA) and issues from certain municipalities. The primary investment types with the Corporate Credit Obligations category are corporate bonds, asset-backed securities and bank loans.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This is measured by the assignment of ratings by nationally recognized statistical rating organizations.

CalSTRS Investment Guidelines require that, at the time of purchase, at least 95 percent of the market value of the corporate securities comprising the credit portion of the core fixed income portfolio be rated investment grade (i.e., Baa3/BBB-/BBB- or better) by two out of the three nationally recognized statistical rating organizations (NRSROs), such as Moody's Investors Service, Inc., Standard and Poor's Rating Service, or Fitch Ratings. The ratings used to determine the quality of the individual securities in the below table are the ratings with the highest degree of risk supplied by two NRSROs. Furthermore, the total position of the outstanding debt of any non-agency mortgage-backed, asset-backed, and commercial mortgage-backed securities issuer shall be limited to 10 percent of the market value of the portfolio, on the basis of each separate trust (pool of assets), at the time of purchase. Obligations of other issuers are held to 5 percent per issuer, at the time of purchase, of the market value of any individual portfolio. The Investment Guidelines also include an allocation to opportunistic strategies, a portion of which are managed externally and which allow for the purchase of bonds rated below investment grade. Limitations on the amount of debt of any one issuer an investment manager may hold is negotiated on a manager by manager basis.

CalSTRS may invest in an unrated security if the security is comparable in quality to other rated securities that are eligible for purchase. The notation WR represents those securities in which the ratings were withdrawn, NR represents those securities that are not rated and NA represents those securities for which the rating disclosure requirements are not applicable.

At June 30, 2012, the fixed income, short term investments and security lending collateral are shown by credit rating below:

Fixed Income & Short Term
(Dollars in Thousands)

Ratings	Securitized Obligations	Corporate Credit Obligations	International Government	Money Market Securities	PMIA	U.S. Government & Agency Obligations	Mutual Funds	Annuity Contracts	Total
AAA	$ 619,577	$ 314,489	$ 339,858	$ -	$ -	$ 35,709	$ 17,820	$ -	$ 1,327,453
AA	74,853	549,168	133,981	140,933	-	8,048,771	18,142	-	8,965,848
A	145,640	2,195,271	177,882	40,000	-	80,848	-	-	2,639,641
BBB	108,382	3,389,485	282,133	-	-	8,303	-	-	3,788,303
BB	92,870	854,389	1,538	-	-	-	-	-	948,797
B	50,154	1,087,861	3,288	-	-	2,361	-	-	1,143,664
CCC	60,840	380,486	-	-	-	-	-	-	441,326
CC	13,946	3,219	-	-	-	-	-	-	17,165
D	2,164	-	-	-	-	-	-	-	2,164
WR	-	202,674	-	-	-	-	-	-	202,674
NR	383,015	233,265	758	2,049,608	186,080	1,484,806	-	102,701	4,440,233
NA	-	-	-	-	-	9,046,165	-	-	9,046,165
Total	$ 1,551,441	$ 9,210,307	$ 939,438	$ 2,230,541	$ 186,080	$ 18,706,963	$ 35,962	$102,701	$32,963,433

- *The PMIA $186.08 million is comprised of the following funds: STRP $184.67 million, THBF $541 thousand, and TDCF $869 thousand.*
- *–The above table includes $15.134 million in Money Market Securities, and $35.962 million in Mutual Funds, and $102.701 million in Annuity Contracts which are reflected in Pension2 Program on the Statement of Fiduciary Net Asset and excludes $221.837 million of equity positions in Inflation Sensitive and Overlay .*
- *The above table includes $625 million in Repurchase Agreements and $391.393 million in Commercial Papers under Money Market Securities and $11.099 million in Treasury Bills under U.S. Government & Agency Obligations that are classified as Cash and Cash Equivalents on the Statement of Fiduciary Net Assets.*

Securities Lending Collateral
(Dollars in Thousands)

Ratings	Money Market Securities	Repurchase Agreements	Short Term Investment Fund	Corporate Credit Obligations	U.S. Government & Agency Obligations	Asset Backed Securities	Total
AAA	$ 1,318,992	$ 150,000	$ -	$ 119,974	$ 59,991	$ 5,016,752	$ 6,665,709
AA	1,883,643	-	-	1,864,886	1,131,224	402,233	5,281,986
A	2,028,321	1,845,486	-	2,029,583	-	219,274	6,122,664
BBB	-	-	-	177,551	-	29,280	206,831
BB	-	-	-	-	-	9,325	9,325
B	-	-	-	-	-	411	411
CCC	-	-	-	-	-	2,748	2,748
CC	-	-	-	-	-	13,600	13,600
D	-	-	-	-	-	2,736	2,736
WR	50,014	-	-	-	-	-	50,014
NR	2,509,594	1,415,777	1,001,039	275,156	44,949	58,054	5,304,569
NA	-	-	-	-	99,910	-	99,910
Total	$ 7,790,564	$ 3,411,263	$ 1,001,039	$ 4,467,150	$ 1,336,074	$ 5,754,413	$ 23,760,503

Cash and accruals totaling negative $70,875 (in thousands) are not included in the total above but are included in the Securities Lending Collateral line item in the Statement of Fiduciary Net Assets.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The Investment Guidelines allow the core long term investment grade portfolios the discretion to deviate the average duration of the portfolio within a range of +/- 20 percent (.80 to 1.20) of the weighted average effective duration of the performance benchmark. The permissible range of deviation for the weighted average effective duration within the opportunistic strategy portfolios is negotiated with each manager and detailed within their respective Investment Guidelines.

Investments may contain terms that increase the sensitivity of their fair values to increasing and decreasing interest rates. Although CalSTRS has investments that have an inherent prepayment risk as well as caps, floors, and step-up features, these are mitigated through the diversification of asset classes, security selection, maturity and credit quality.

The table below represents the net asset values and duration of the long-term fixed income portfolios at June 30, 2012, which include cash and accruals not included in the total investments section of the Statement of Fiduciary Net Assets:

Long Term Fixed Income Investments
Duration
(Dollars in Thousands)

Investment Type (by portfolio)	Portfolio Net Asset Value	Effective Duration	Benchmark Duration	Difference
Core Portfolio				
U.S. Government & Agency Obligations	$ 7,557,073	5.29	5.19	0.10
Corporate Credit Obligations	6,310,451	6.55	6.52	0.03
Commercial Mortgage Backed Securities	548,696	3.19	3.20	-0.01
Mortgage Backed Securities	7,962,483	2.00	1.74	0.26
Debt Opportunistic				
Corporate High Yield	1,725,262	3.75	3.91	-0.16
Debt Core Plus	2,863,996	4.44	4.45	-0.01
Leveraged Loans	272,254	0.40	0.25	0.15
Special Situations	214,962	1.24	4.40	-3.16
Debt Transition	6,607	4.49	4.40	0.09
Total	$ 27,461,784	4.31	4.40	-0.09

The above amount excludes joint investments with private equity and real estate and overlay investments with a net asset value total of $101,892 (in thousands) as of June 30, 2012.

Global inflation-linked securities and the home loan program were not included in the table above. The global inflation-linked securities had a net asset value of $297.9 million with an effective duration of 10.74 compared to the benchmark duration of 10.63. The home loan program had a net asset value of $412 million with a weighted average maturity of 27.1 years.

At June 30, 2012, the segmented time distribution for the short term fixed income portfolio based upon the expected maturity and/or first reset dates are as follows:

Short Term Fixed Income Investments
Segmented Time Distribution
(Dollars in Thousands)

Investment Type	0-30 days	31-90 days	91-120 days	121-180 days	181-365 days	366+ days	TOTALS
Money Market Securities	$ 1,161,114	$ 602,179	$ -	$ 42,977	$ 75,000	$ -	$ 1,881,270
Short Term Investment Fund	319,134	-	-	-	-	-	319,134
PMIA	186,080	-	-	-	-	-	186,080
Corporate Credit Obligations	158,970	250,906	-	-	-	9,497	419,373
U.S. Government & Agency Obligations	200,540	285,038	218,923	415,834	539,587	294,621	1,954,543
Asset Backed Securities	71,151	34,200	18,686	4,200	-	-	128,237
Total	$ 2,096,989	$ 1,172,323	$ 237,609	$ 463,011	$ 614,587	$ 304,118	$ 4,888,637
Weightings	42.90%	23.98%	4.86%	9.47%	12.57%	6.22%	100.00%

The investment objective for the short-term fixed income portfolio is to seek the preservation of capital and liquidity, and to generate the highest possible current income consistent with a prudent level of risk available from investing in a diversified portfolio of short-term fixed income securities. The Investment Guidelines state that the average maturity of the portfolio shall be managed such that it will not exceed 180 days. In addition to short-term securities, the short-term fixed income portfolios also contain debt securities and cash and cash equivalents, classified as such in the Statement of Fiduciary Net Assets.

At June 30, 2012, the segmented time distribution based upon the expected maturity and/or first reset date for the Securities Lending Cash Collateral investments are as follows:

Securities Lending Collateral
Segmented Time Distribution
(Dollars in Thousands)

Investment Type (by portfolio)	0-1 days	2-6 days	7-29 days	30-59 days	60-89 days	90+ days	TOTAL
Money Market Securities	$ -	$ 571,004	$ 2,640,562	$ 3,304,195	$ 1,244,803	$ 30,000	$ 7,790,564
Repurchase Agreements	1,415,777	1,675,486	70,000	250,000	-	-	3,411,263
Short Term Investment Fund	1,001,039	-	-	-	-	-	1,001,039
Corporate Credit Obligations	-	355,256	1,412,265	1,359,201	1,197,614	142,814	4,467,150
U.S. Government & Agency Obligations	-	640,476	71,218	44,991	24,992	554,397	1,336,074
Asset Backed Securities	-	-	4,978,531	327,642	309,096	139,144	5,754,413
Total	$ 2,416,816	$ 3,242,222	$ 9,172,576	$ 5,286,029	$ 2,776,505	$ 866,355	$ 23,760,503
Weightings	10.17%	13.65%	38.60%	22.25%	11.69%	3.64%	100.00%

Cash and accruals totaling negative $70,875 (in thousands) are not included in the total above but are included in the Securities Lending Collateral line item in the Statement of Fiduciary Net Assets.

Securities Lending Cash Collateral assets are diversified among different asset classes with the maximum remaining effective maturity of any instrument being three years. The fund must remain liquid to meet collateral returns.

At June 30, 2012, the weighted average maturity of investments classified for the Pension2 IRC 403(b) and 457 plans on the Statement of Fiduciary Net Assets are as follows:

Pension2
Weighted Average Maturity
(Dollars in Thousands)

Investment Type	Maturity	Fair Value
Money Market Securities	54 days	$ 15,134
Vanguard Inflation Protected Securities Fund Institutional	9.6 years	17,820
Vanguard Short-Term Bond Index Fund Institutional	2.8 years	18,142
Total		$ 51,096

Pension2's TIAA Traditional Annuity's primary objective is the guarantee of principal and a specified interest rate. A guaranteed annuity backed by TIAA's claims-paying ability, TIAA Traditional guarantees the principal and a 1.25 percent minimum annual interest rate.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributed to the magnitude of CalSTRS investment in a single issuer. As of June 30, 2012, CalSTRS has no single issuer that exceeds 5 percent of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded. CalSTRS Investment Policy states that no more than 3 percent of the total fund shall be invested or exposed to any one security or corporation, with the exception of United States Treasury or Agency Obligations. At June 30, 2012, CalSTRS was in compliance with this policy. IRC 403(b) and 457 plans investments have no single issuer that exceeds 5 percent of total investments.

Custodial Credit Risk
Custodial credit risk is the risk that if a depository institution or counterparty fails, CalSTRS would not be able to recover the value of its deposits, investments, or collateral securities. As of June 30, 2012, all of CalSTRS cash and investments, other than Pension2 investments, are held in CalSTRS name or CalSTRS nominee name and/or are not exposed to custodial credit risk. As of June 30, 2012, 100 percent of the IRC 403(b) and 457 plans are held in the name of TIAA-CREF.

Foreign Currency Risk
Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

At June 30, 2012, CalSTRS investments denominated in foreign currencies are as follows:

Foreign Currency Risk
(Dollars in Thousands)

(In U.S. Dollar Equivalents)

Currency Name	Cash	Equity	Fixed Income	Spot Contracts	Forward Contracts	Total Exposure
Argentine Peso	$ -	$ -	$ -	$ -	$ 107	$ 107
Australian Dollar	14,415	1,270,002	42,373	(13)	(280)	1,326,497
Brazilian Real	827	298,121	72,516	(6)	61	371,519
Canadian Dollar	31,405	1,497,056	80,766	(6)	(714)	1,608,507
Chilean Peso	-	13,276	-	-	(672)	12,604
Colombian Peso	-	-	-	-	(152)	(152)
Czech Koruna	-	460	-	-	(481)	(21)
Danish Krone	3,629	230,525	-	(2)	-	234,152
Egyptian Pound	4,789	14,357	-	-	10	19,156
Euro Currency	122,680	8,870,910	142,157	(829)	543	9,135,461
Hong Kong Dollar	28,012	871,136	-	-	(5)	899,143
Hungarian Forint	-	17,622	-	-	538	18,160
Indian Rupee	30	176,366	-	-	316	176,712
Indonesian Rupiah	1,505	157,086	1,373	(3)	(178)	159,783
Israeli Shekel	1,483	52,630	1	-	(167)	53,947
Japanese Yen	55,257	3,343,866	7,708	1	93	3,406,925
Malaysian Ringgit	575	17,039	-	11	(22)	17,603
Mexican Peso	3,076	140,238	66,810	-	455	210,579
Moroccan Dirham	-	-	-	-	1	1
New Romanian Leu	-	-	-	-	77	77
New Russian Ruble	-	-	-	-	606	606
New Taiwan Dollar	3,099	233,784	-	-	(28)	236,855
New Turkish Lira	2	86,225	-	-	-	86,227
New Zealand Dollar	202	23,661	-	-	256	24,119
Norwegian Krone	3,629	133,862	3,593	(11)	289	141,362
Pakistan Rupee	-	16,821	-	-	-	16,821
Peruvian Nouveau Sol	-	-	-	(92)	46	(46)
Philippine Peso	118	18,801	-	-	(77)	18,842
Polish Zloty	13	285	-	-	423	721
Pound Sterling	46,263	3,052,843	98,894	(52)	512	3,198,460
Singapore Dollar	3,097	315,339	-	(1)	(170)	318,265
South African Rand	664	290,135	-	77	(480)	290,396
South Korean Won	584	528,097	-	-	(52)	528,629
Swedish Krona	6,767	421,000	6,221	(30)	(362)	433,596
Swiss Franc	17,031	1,056,380	2,122	(7)	(1,338)	1,074,188
Thailand Baht	805	128,606	-	-	211	129,622
Tunisian Dinar	-	-	-	-	30	30
Turkish Lira	412	49,466	-	-	121	49,999
Yuan Renminbi	-	-	-	43	(542)	(499)
UAE Dirham	-	1,639	-	-	-	1,639
Total	$ 350,369	$ 23,327,634	$ 524,534	$ (920)	$ (1,025)	$ 24,200,592

The foreign currency figures are comprised of numerous portfolios within the debt securities, global equity, inflation sensitive, private equity, real estate investments and overlay line items on the Statement of Fiduciary Net Assets.

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. Foreign currency is held temporarily in foreign accounts until it is able to be repatriated or expended.

In accordance with the Investment Policy and Management Plan, CalSTRS has established a strategic allocation to non-dollar public and private equity assets (i.e. private equity investments and real estate). Considering this commitment to non-dollar assets and the impact currency fluctuations can have on the total return of dollar-based investors, CalSTRS has recognized the need to implement strategies designed to address the management of currency risk. CalSTRS believes that its Currency Management Program should emphasize the protection of the value of its non-dollar public and private equity assets against a strengthening U.S. dollar first, yet recognizes that there also exists opportunities for alpha generation (the ability to derive a return in excess of a market return) within the currency markets.

CalSTRS fixed income staff has management and/or oversight responsibilities for the Currency Management Program. The position range has been designed to allow for some degree of symmetry around the underlying exposure to the foreign denominated assets within CalSTRS in order to both protect the translation value of the assets against a strengthening U.S. dollar and to enhance returns in a declining U.S. dollar environment. As a result, the position range shall be -25 percent to 50 percent of the total notional value (in U.S. Dollars) of the non-U.S. public and non-U.S. private (i.e. Private Equity and Real Estate) equity portfolios.

As of June 30, 2012, the IRC 403(b) and 457 plans are not exposed to foreign currency risk.

Derivative Instruments

As of June 30, 2012, the derivative instruments held by CalSTRS are considered investments and not hedges for accounting purposes. The term hedging, as it is used elsewhere in the notes to these financial statements, denotes an economic activity and not an accounting method. The gains and losses arising from this activity are recognized as incurred in the Statement of Changes in Fiduciary Net Assets.

All investment derivatives discussed below are included within the Investment Risk Schedules, which precede this section. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

The table below presents the related net appreciation (depreciation) in fair value, the fair value amounts and the notional amounts of derivative instruments outstanding at June 30, 2012:

Investment Derivative Disclosure
(Dollars in Thousands)

	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2012		Fair Value at June 30, 2012			
	Classification	**Amount**	**Classification**	**Amount**	**Notional (Units/Shares)**	
Investment Derivatives Instruments						
Credit Default Swaps	Investment Income / (Loss)	$ 9,112	Debt Securities	$ 1,250	63,972	
Interest Rate Swaps	Investment Income / (Loss)	(46,925)	Debt Securities	(16,872)	150,000	
Total Return Bond Swaps	Investment Income / (Loss)	(1,770)	Debt Securities	-	-	
Foreign Currency Forwards	Investment Income / (Loss)	(33,929)	Foreign Currency Contracts	(1,025)	5,729,128	
Futures (Domestic and Foreign)	Investment Income / (Loss)	170,123	Futures	-	(69,517)	
Options	Investment Income / (Loss)	12,829	Debt Securities	14,316	265,908	
Rights	Investment Income / (Loss)	2,920	Equities	623	1,621	Shares
Warrants	Investment Income / (Loss)	116	Equities	694	458	Shares
Total Derivative Instruments		$ 112,476		$ (1,014)		

The total options amount of $14,316 is comprised of options bought and options written of $14,480 and $(164), respectively.

At June 30, 2012, no derivative instruments were classified as short term, inflation sensitive, private equity or real estate investments or held as part of the CalSTRS securities lending collateral or Pension2 retirement plans.

Valuation methods used by CalSTRS are described in more detail in Note 2. CalSTRS derivative instruments that are not exchange traded, such as credit default swaps and interest rate swaps, are valued using methods employed for debt securities.

Futures contracts are financial instruments that derive their value from underlying indices or reference rates and are marked-to-market at the end of each trading day. Daily settlement of gains and losses occur on the following business day. As a result, the instruments themselves have no fair value at June 30, 2012, or at the end of any trading day. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and recognized in the financial statements under net appreciation (depreciation) in fair value of investments as they are incurred.

Foreign currency forward contracts are obligations to buy or sell a currency at a specified exchange rate and quantity on a specific future date. The fair value of the foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing forward rate at June 30, 2012.

Counterparty Credit Risk

Below is a table which depicts the counterparty credit ratings of CalSTRS non-exchange traded investment derivative instruments outstanding and subject to loss at June 30, 2012. The ratings used to determine the quality of the individual counterparty are the ratings with the highest degree of risk supplied by two NRSROs.

Counterparty Credit Rating
(Dollars in Thousands)

Ratings	Credit Default Swaps	Interest Rate Swaps	Foreign Currency Forwards	Total
AA	$ -	$ -	$ 1,758	$ 1,758
A	2,846	-	3,988	6,834
BBB	269	-	66	335
Subtotal Investments in Asset Position	$ 3,115	$ -	$ 5,812	$ 8,927
Investments in Liability Position	(1,865)	(16,872)	(6,837)	(25,574)
Total Investments in Asset / (Liability) Position	$ 1,250	$ (16,872)	$ (1,025)	$ (16,647)

The counterparty credit exposure for similar instruments with the same counterparty is netted for presentation purposes.

In cases where a wholly owned broker-dealer subsidiary does not engage the rating companies for a standalone rating, the subsidiary is assigned the parent company rating as the broker-dealer is an integral part of their business model(s). With the exception of foreign currency forwards, it is CalSTRS practice to require counterparty collateral posting provisions in its non-exchange traded derivative instruments where it is consistent with market practice. At June 30, 2012, the aggregate amount of cash collateral pledged by CalSTRS on behalf of the non-exchange traded derivatives was $13.2 million.

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2012 was $8.9 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. While CalSTRS did not have any master netting agreements with its counterparties at June 30, 2012, the table presents exposure for similar instruments with the same counterparty on a net basis.

At June 30, 2012, CalSTRS did not have any significant exposure to counterparty credit risk with any single party.

Custodial Credit Risk

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement 40. At June 30, 2012, all of CalSTRS investments in derivative instruments, other than Pension2 investments, are held in CalSTRS name or CalSTRS nominee name and/or are not exposed to custodial credit risk as of June 30, 2012.

Interest Rate Risk
At June 30, 2012, CalSTRS is exposed to interest rate risk on its derivative instruments described below by maturity period.

Investment Maturities
(Dollars in Thousands)

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**
Credit Default Swaps	$ 1,250	$ -	$ (396)	$ (220)	$ 1,866
Interest Rate Swaps	(16,872)	-	-	(16,872)	-
Fixed Income Options	13,450	13,450	-	-	-
Total	$ (2,172)	$ 13,450	$ (396)	$ (17,092)	$ 1,866

Interest rate swaps are highly sensitive to changes in interest rates. The table below details the reference rate, fair value and notional amount of these derivative instruments:

Derivative Instruments Highly Sensitive to Interest Rate Changes
(Dollars in Thousands)

Investment Type	Reference Rate	Fair Value	Notional
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 3.575%	$ (16,872)	150,000
Subtotal - Interest Rate Swaps		$ (16,872)	150,000
Fixed Income Options Bought	Swaption 5YR RTR May13 3.075% Call	13,343	150,000
Fixed Income Options Bought	Swaption Payer Sept 0.92% Put	156	11,000
Fixed Income Options Bought	Swaption Payer Sept 0.93% Put	11	4,016
Fixed Income Options Written	Swaption Payer Sept 0.87% Put	(59)	(11,000)
Fixed Income Options Written	Swaption Payer Sept 0.88% Put	(1)	(4,016)
Subtotal - Fixed Income Options		$ 13,450	150,000
Total		$ (3,422)	300,000

Foreign Currency Risk

At June 30, 2012, CalSTRS is exposed to foreign currency risk on its investments in rights, warrants, options and forwards denominated in foreign currencies.

Foreign Currency Risk

(Dollars in Thousands)

(In U.S. Dollar Equivalents)

				Currency Forward Contracts			
Currency Name	Rights	Warrants	Options	Net Receivables	Net Payables	Swaps	Total Exposure
Argentine Peso	$ -	$ -	$ -	$ 107	$ -	$ -	$ 107
Australian Dollar	120	-	51	3,133	(3,413)	-	(109)
Brazilian Real	-	-	-	1,037	(976)	-	61
Canadian Dollar	212	-	-	221	(935)	-	(502)
Chilean Peso	-	-	-	(553)	(119)	-	(672)
Colombian Peso	-	-	-	(164)	12	-	(152)
Czech Koruna	-	-	-	344	(825)	-	(481)
Egyptian Pound	-	-	-	10	-	-	10
Euro Currency	291	1	380	6,006	(5,463)	-	1,215
Hong Kong Dollar	-	-	-	-	(5)	-	(5)
Hungarian Forint	-	-	-	1,651	(1,113)	-	538
Indian Rupee	-	-	-	316	-	-	316
Indonesian Rupiah	-	-	-	-	(178)	-	(178)
Israeli Shekel	-	-	-	(329)	162	-	(167)
Japanese Yen	-	-	-	(1,117)	1,210	-	93
Malyasian Ringgit	-	-	-	20	(42)	-	(22)
Mexican Peso	-	-	-	4,372	(3,917)	-	455
Moroccan Dirham	-	-	-	1	-	-	1
New Romanian Leu	-	-	-	77	-	-	77
New Russian Ruble	-	-	-	806	(200)	-	606
New Taiwan Dollar	-	-	-	-	(28)	-	(28)
New Zealand Dollar	-	-	-	1,740	(1,484)	-	256
Norwegian Krone	-	-	-	600	(311)	-	289
Peruvian Nouveau Sol	-	-	-	46	-	-	46
Philippine Peso	-	-	-	179	(256)	-	(77)
Polish Zloty	-	-	-	567	(144)	-	423
Pound Sterling	-	-	-	3,310	(2,798)	-	512
Singapore Dollar	-	-	-	2,487	(2,657)	-	(170)
South African Rand	-	-	-	443	(923)	-	(480)
South Korean Won	-	-	-	554	(606)	-	(52)
Swedish Krona	-	-	-	804	(1,166)	-	(362)
Swiss Franc	-	-	-	1,704	(3,042)	-	(1,338)
Thailand Baht	-	-	-	-	211	-	211
Tunisian Dinar	-	-	-	30	-	-	30
Turkish Lira	-	-	-	236	(115)	-	121
Yuan Renminbi	-	-	-	(816)	274	-	(542)
Subtotal	$ 623	$ 1	$ 431	$ 27,822	$ (28,847)	$ -	$ 30
Investments denominated in USD	-	693	13,885	-	-	(15,622)	(1,044)
Total	$ 623	$ 694	$ 14,316	$ 27,822	$ (28,847)	$ (15,622)	$ (1,014)

Foreign currency forward contracts are commitments to purchase or sell a stated amount of foreign currency at a specified future date and price. At June 30, 2012, the net unrealized loss on the foreign currency forward contracts was $1.0 million.

Contingent Features

At June 30, 2012, CalSTRS held no positions in derivatives containing contingent features.

5. Contingencies

CalSTRS is involved in litigation relating to various matters. In the opinion of management, after consultation with legal counsel, the outcome of these matters is not expected to have a material adverse effect on CalSTRS financial statements.

6. Commitments

In connection with the purchase of partnership interests under various investment portfolios, CalSTRS has remaining unfunded commitments of approximately $15.7 billion at June 30, 2012. The following table depicts the unfunded commitments by asset strategy:

Asset Strategy	**Unfunded Commitments** *(Dollars in Thousands)*
Corporate Governance	$ 269,646
Fixed Income	8,549
Infrastructure	433,814
Private Equity	7,604,708
Real Estate	7,373,517
Total	$15,690,234

CalSTRS has entered into agreements through its Credit Enhancement Program to provide credit support and/or liquidity support on certain debt securities. At June 30, 2012, CalSTRS had commitments of approximately $1.8 billion expiring through November 2015. CalSTRS is paid a fee over the term of such agreements and earned approximately $12.4 million for the period ended June 30, 2012.

Medicare Premium Payment Program (MPP program)
Under current Board policy, the assets set aside from the future employer contributions to fund the MPP Program are equal to its actuarial obligation less the value of any assets already in the THBF. As of the June 30, 2011 actuarial valuation, the future employer contributions committed to funding the MPP Program obligations total $635 million.

7. Subsequent Events

In August 2012, the Legislature passed significant pension reform through Assembly Bill 340, which the Governor signed in September. The legislation is effective January 1, 2013 and includes the following impacts:

- Requires new members to contribute the greater of 50 percent of normal cost or the current contribution rate

- Excludes allowances, bonuses, and cash in lieu in the calculation of contributions and benefits for new members

- Places a cap on the compensation used to calculate contributions and benefits for new member equal to 120 percent of the Social Security wage base, adjusted each year based on changes to the Consumer Price Index

- Increases the normal retirement age for new members from 60 to 62 with a 2 percent age factor

- Extends the final compensation period to three years for all new members, regardless of years of service

- Limits benefits for new members to the federal limit in Internal Revenue Code section 415 ($171,202 at age 65 in 2012)

- Prohibits retroactive benefit increases, pension contribution holidays, and the purchase of nonqualified service for all members

The legislation will have a long-term impact on benefits paid from and contributions paid to the Defined Benefit Program. CalSTRS is still assessing this impact.

On August 31, 2012, the State Legislature passed a resolution declaring its intent to enact legislation during the 2013-14 Regular Session to address the long-term funding needs of the DB program. To facilitate this intent, the resolution encourages CalSTRS to submit at least three options to the Legislature to address the long-term viability of the DB program through a combination of member, employer and state contribution increases.

8. New Accounting Pronouncements

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, modifies certain requirements for inclusion of component units in the financial reporting entity. The amendments to the criteria for including component units will allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The provisions of GASB Statement No. 61 are effective for financial statements for periods beginning after June 15, 2012. Management is currently evaluating GASB Statement No. 61, and if applicable, it will be implemented in the financial statements for fiscal year 2012-13.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. The statement improves financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments into a single source, with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users. The provisions of GASB Statement No. 62 are effective for financial statements for periods beginning after December 15, 2011. Management is currently evaluating GASB Statement No. 62, and if applicable, it will be implemented in the financial statements for fiscal year 2012-13.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. This statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of GASB Statement No. 63 are effective for financial statements for periods beginning after December 15, 2011. Management is currently evaluating GASB Statement No. 63, and if applicable, it will be implemented in the financial statements for fiscal year 2012-13.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*, will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of GASB Statement No. 64 are effective for financial statements for periods beginning after June 15, 2011. Management has evaluated GASB Statement No. 64 and determined the amendments made to GASB 53 through this statement do not have an impact on CalSTRS financial reporting.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of GASB Statement No. 65 are effective for financial statements for periods beginning after December 15, 2012. We have not yet evaluated the impact to the financial statements related to the implementation of this GASB.

GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB Statement No. 66 are effective for financial statements for periods beginning after December 15, 2012. Management has evaluated GASB Statement No. 66 and determined the amendments made through this statement do not have an impact on CalSTRS financial reporting.

GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The new information will enhance the decision-usefulness of the financial reports of these pension plans, their value for assessing accountability, and their transparency by providing information about measures of net pension liabilities and explanations of how and why those liabilities changed from year to year. The net pension liability information, including ratios, will offer an up-to-date indication of the extent to which the total pension liability is covered by the fiduciary net position of the pension plan. In addition, new information about rates of return on pension plan investments will inform financial report users about the effects of market conditions on the pension plan's assets over time and provide information for users to assess the relative success of the pension plan's investment strategy and the relative contribution that investment earnings provide to the pension plan's ability to pay benefits to plan members when they come due. The provisions of GASB Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013. Management is currently evaluating GASB Statement No. 67 and will implement it in the financial statements for fiscal year 2013-14.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information. The comparability of reported pension information also will be improved by the changes related to the attribution method used to determine service cost and the total pension liability, requirements for immediate recognition in pension expense of certain items, and the establishment of standardized expense recognition periods for amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions. The provisions of GASB Statement No. 68 are effective for financial statements for periods beginning after June 15, 2014. Management is currently evaluating GASB Statement No. 68 to assist the State and school districts in implementing it in their financial statements for fiscal year 2014-15.

Required Supplementary Information—Unaudited

California State Teachers' Retirement System
Schedule of Funding Progress
(*Dollars in Millions*) Schedule I

The information presented in Supplementary Schedules I and II was determined as part of the actuarial valuations at June 30, 2011, except where noted.

Actuarial Valuation Date as of June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (Funding Excess) (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
State Teachers' Retirement Plan						
Defined Benefit Program						
2012	(1)	(1)	(1)	(1)	(1)	(1)
2011	$ 143,930	$ 207,770	$ 63,840	69%	$ 26,592	240%
2010	140,291	196,315	56,024	71%	26,275	213%
2009	145,142	185,683	40,541	78%	27,327	148%
2008	155,215	177,734	22,519	87%	27,118	83%
2007	148,427	167,129	18,702	89%	25,906	72%
2006	131,237	150,872	19,635	87%	24,240	81%
Cash Balance Benefit Program						
2012	(1)	(1)	(1)	(1)	(1)	(1)
2011	$ 151	$ 144	$ (7)	105%	$ 158	(4.43%)
2010	114	130	16	88%	163	10%
2009	92	115	23	80%	182	13%
2008	99	98	(1)	101%	181	(0.48%)
2007	93	80	(13)	117%	145	(9%)
2006	69	63	(6)	109%	122	(5%)
Defined Benefit Supplement Program (2)						
2012	(1)	(1)	(1)	(1)	(1)	(1)
2011	$ 8,055	$ 7,774	$ (281)	104%	27,666	(1.00%)
2010	6,412	7,456	1,044	86%	27,341	3.81%
2009	5,146	6,599	1,453	78%	28,763	5.05%
2008	5,636	5,627	(9)	100%	27,118	(0.03%)
2007	5,382	4,622	(760)	116%	25,906	(2.93%)
2006	3,951	3,616	(335)	109%	24,239	(1.38%)
Teachers' Health Benefits Fund						
Medicare Premium Payment Program						
2012	(1)	(1)	(1)	(1)	(1)	(1)
2011	(4)	(4)	(4)	(4)	(4)	(4)
2010	0.6	905	904	0.1%	5,011	18.00%
2009	(4)	(4)	(4)	(4)	(4)	(4)
2008	4	976	972	0.4%	6,604	14.70%
2007 (3) (5)	4	921	917	0.4%	N/A	N/A
2006	3	797	794	0.4%	7,452	10.70%

California State Teachers' Retirement System
Schedule of Funding Progress
(*Dollars in Millions)* Schedule I (Continued)

1) Actuarial valuations as of June 30, 2012, are expected to be available by April 2013.

2) From the June 30, 2005 to the June 30, 2008 valuation, covered payroll excludes limited term incentive pay and extra service credit pay in order to present the payroll base most relevant to the funding of any unfunded actuarial accrued liabilities of the Defined Benefit Supplement Program.

3) At the April 5, 2007 meeting of the Board, the MPP Program was extended to members who retire or will retire before July 2012. Extending the MPP Program to members who retire or will retire before July 1, 2012, resulted in an increase in the costs for the MPP Program of between $85 million and $150.6 million. The increase in cost is an estimate and the extension of benefits is included as part of the actuarial accrued liability in subsequent actuarial valuations.

4) An actuarial valuation for the MPP Program Fund is performed on a biennial basis and not available as of 2009 and 2011.

5) An actuarial valuation for the MPP Program was not completed as of June 30, 2007. The actuarial accrued liability and the unfunded actuarial accrued liability were estimated based on June 30, 2006 actuarial information.

California State Teachers' Retirement System
Schedule of Contributions from Employers
And Other Contributing Entities
(Dollars in Millions) Schedule II

Year Ended June 30	Annual Required Contributions (a)	Contributed by Employers [(1)(7)] (b)	Contributed by the State/Federal [(2)] (c)	Total Contributed (b) + (c)	Percentage Contributed (b + c)/a
State Teachers' Retirement Plan					
Defined Benefit Program [(3)]					
2012	$ 6,230	$ 2,166	$ 689	$ 2,855	46%
2011	5,985	2,228	568	2,796	47%
2010	4,924	2,130	563	2,693	55%
2009	4,547	2,331	536	2,867	63%
2008	4,362	2,363	501	2,864	66%
2007	3,980	2,168	481	2,649	67%
Cash Balance Benefit Program [(3)]					
2012	$ 5.68	$ 6.02	$ -	$ 6.02	106%
2011	7.16	6.39	-	6.39	89%
2010	7.91	6.71	-	6.71	85%
2009	7.44	7.49	-	7.49	101%
2008	6.80	7.50	-	7.50	110%
2007	5.61	5.93	-	5.93	106%
Defined Benefit Supplement Program [(3)]					
2012	$ 42	$ 58	$ -	$ 58	138%
2011	122	69	-	69	57%
2010	222	145	-	145	65%
2009	121	121	-	121	100%
2008	78	118	-	118	151%
2007	93	111	-	111	119%
Purchasing Power Protection Program [(4) (5)]					
2012	$ 614	$ 1	$ 614	$ 615	100%
2011	627	1	626	627	100%
2010	659	1	658	659	100%
2009	605	1	604	605	100%
2008	629	1	1,128	1,129	179%
2007	604	1	603	604	100%
Teachers' Health Benefits Fund					
Medicare Premium Payment Program					
2012 [(6)]	$ 57	$ 35	$ -	$ 35	61%
2011	57	36	-	36	63%
2010 [(6)]	64	32	-	32	50%
2009	62	30	-	30	48%
2008 [(6)]	58	33	-	33	57%
2007	47	32	-	32	68%

California State Teachers' Retirement System
Schedule of Contributions from Employers
And Other Contributing Entities
(Dollars in Millions) Schedule II (Continued)

1) For the DB Program amounts include employer contributions under Education Code Sections 22135, 22714 (less amounts deposited in the SBMA), 22718, 22950 and 22951 and reduced for transfers per Education Code 24255.

2) The DB and Purchasing Power Protection Programs include State contributions under Education Code Section 22954 and 22955.

3) For the determination of the Annual Required Contribution, an open amortization period of 30 years is used for the Unfunded Actuarial Accrued Liability.

4) The amount included in the "Contributed by the State/Federal" column includes federal proceeds from School Lands Income and the sale of the Elk Hills Petroleum Reserve.

5) An ARC has not been determined for the Purchasing Power Protection Program. The figure is the contractual amount adjusted for proceeds from School Lands Income, the sale of Elk Hills Petroleum Reserve, and employer contributions for 2-year additions.

6) The ARC for 2008, 2010 and 2012 was based on a roll-forward of figures from the June 30, 2006, June 30, 2008 and June 30, 2010 valuations, respectively.

7) Total employer contributions to the State Teachers' Retirement Plan excludes $7 million in contributions paid for the Replacement Benefit Program.

California State Teachers' Retirement System
Schedule of Contributions from Employers And Other Contributing Entities
(Dollars in Millions) **Schedule II (Continued)**

	Defined Benefit Program	Cash Balance Benefit Program
Actuarial Cost Method	Entry age normal	Traditional unit credit
Amortization Method	Level percent of payroll basis	Level percent of payroll basis
Amortization Period	Open	Open
Remaining Amortization Period	30 years	30 years
Asset Valuation Method	Expected value with 33% adjustment to market value	Fair value of net assets
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.00%
Interest on Accounts	4.50%	7.00%
Wage Growth	3.75%	3.75%
Consumer Price Inflation	3.00%	3.00%
Post-retirement Benefit Increases	2.00% simple	Not applicable

	Defined Benefit Supplement Program	MPP Program
Actuarial Cost Method	Traditional unit credit	Entry Age Normal
Amortization Method	Level percent of payroll basis	Level dollar basis
Amortization Period	Open	Closed
Remaining Amortization Period	30 years	25 years
Asset Valuation Method	Fair value of net assets	Fair value of net assets
Actuarial Assumptions:		
Investment Rate of Return	7.50%	4.00%
Interest on Accounts	7.50%	Not applicable
Wage Growth	3.75%	Not applicable
Consumer Price Inflation	3.00%	3.00%
Healthcare Cost Trend Rate Part A Premiums	Not applicable	5.00%
Healthcare Cost Trend Rate Part B Premiums	Not applicable	5.00%

Other Supplemental Information

California State Teachers' Retirement System
Schedule of Administrative Expenses
(Dollars in Thousands) **Schedule III**

	State Teachers' Retirement Plan	Pension2 IRC 403(b) Plan	Pension2 IRC 457 Plan	Teachers' Health Benefit Fund	Teachers' Deferred Compensation Fund	Totals
Personnel Services:						
Salaries and Wages	$ 46,156	$ -	$ -	$ 152	$ 270	$ 46,578
Staff Benefits	21,100	-	-	72	83	21,255
Accrued Vacation	1,124	-	-	5	20	1,149
Accrued Worker's Compensation Expense	(270)	-	-	-	-	(270)
Accrued Personal Leave	652	-	-	2	2	656
Accrued OPEB Expense	8,577	-	-	20	38	8,635
Total Personnel Services	77,339	-	-	251	413	78,003
Operating Expenses and Equipment:						
General	1,621	-	-	107	61	1,789
Depreciation	8,345	-	-	-	-	8,345
Printing	1,245	-	-	1	4	1,250
Communications	1,125	-	-	-	-	1,125
Postage	1,090	-	-	-	-	1,090
Insurance	22	-	-	-	-	22
Travel	547	-	-	-	8	555
Training	648	-	-	-	-	648
Facilities Operations	6,672	-	-	-	-	6,672
Consultants and Professional Services	23,326	606	8	-	157	24,097
Data Processing	6,434	-	-	-	-	6,434
Information Technology	3,840	-	-	-	-	3,840
Indirect State Central Services	5,523	-	-	11	20	5,554
Equipment	81	-	-	-	-	81
Other	553	-	-	-	35	588
Total Operating Expenses and Equipment	61,072	606	8	119	285	62,090
Total	$ 138,411	$ 606	$ 8	$ 370	$ 698	$ 140,093

California State Teachers' Retirement System
Schedule of Investment Expenses
(Dollars in Thousands) **Schedule IV**

External Equity Managers:		
Domestic:		
Batterymarch Financial Management, Inc.	$	941
Bivium Capital Partners, LLC		1,571
BlackRock Institutional Trust Co, NA		1,096
Capital Prospects, LLC		939
Chicago Equity Partners		1,281
Delaware Investment Advisors		2,157
Delphi Management, Inc.		791
Denver Investment Advisor, LLC		597
First Quadrant, LP		1,470
FIS Funds Management, Inc.		1,704
Leading Edge Investment Advisors, LLC		1,383
Light Green Advisors		210
Mellon Capital Management Corp.		145
NCM Capital Management Group, Inc.		156
Neuberger Berman		43
New Amsterdam Partners, LLC		299
Northern Trust Global Advisors, Inc.		1,703
Progress Investment Management		1,730
Sasco Capital, Inc.		4,004
Silvercrest SCV		38
State Street Global Advisors		619
Sterling Capital Management, LLC		1,128
T. Rowe Price International, Inc.		579
TCW Asset Management Co.		3,289
UBS Global Asset Management (Americas), Inc.		135
Total Domestic:		28,008
International:		
Acuity Investment Management	$	643
Allianz Global Investors Capital		1,181
Baillie Gifford Overseas, Ltd.		8,196
Batterymarch Financial Management, Inc.		1,027
BlackRock Institutional Trust Co, NA		1,022
BlackRock International, Ltd.		3,300
Capital Guardian Trust Co.		3,084
Generation Investment Management US, LLP		3,827
Lazard Asset Management, LLC		7,349
Mondrian Investment Partners, Ltd.		2,431
Morgan Stanley Investment Management		1,850
Oechsle International Advisors, LLC		1,109
Pyramis Global Advisors Trust Co.		1,342
State Street Global Advisors		1,121
T. Rowe Price International, Inc.		5,032
Templeton Asset Management, Ltd.		6,990
UBS Global Asset Management (Americas), Inc.		433
Total International:	$	49,937
Total External Equity Managers:	$	77,945

California State Teachers' Retirement System
Schedule of Investment Expenses
(Dollars in Thousands) Schedule IV (Continued)

External Fixed Income Managers:		
Artio Global Investors	$	2,210
BlackRock Financial Management, Inc.		1,718
Credit Suisse Asset Management, LLC		210
Goldman Sachs Asset Management		1,672
LM Capital Group, LLC		840
Post Advisory Group, LLC		1,775
Western Asset Management Co.		1,214
Total External Fixed Income Managers:	$	9,639
FX Overlay External Fixed Income Managers		
FDO Partners	$	3,181
Lee Overlay Partners		1,000
Mesirow Financial		1,692
Millenium		1,901
Total FX Overlay External Fixed Income Managers:	$	7,774
Real Estate Managers/Advisors:		
BlackRock Realty Advisors	$	1,681
CB Richard Ellis Investors, LLC		5,098
CBRE Global Investors		1,607
Heitman Capital Management, LLC		2,256
ING Clarion Partners		466
Principal Global Investors		6,733
Thomas Properties Group, LP		45
Total Real Estate Managers/Advisors:	$	17,886
Research and Rating Services:		
Capital IQ	$	45
CEM Benchmarking, Inc.		35
Covenant Review, LLC		45
Credit Sights		24
Evestment Alliance, LLC		28
Factiva, Inc.		19
Factset Research System		285
Fitch Information, Inc.		74
GNA Services, LLC		26
International Strategy & Investment Group, Inc.		85
KDP Investment Advisors, Inc.		36
Moody's Investors Service		277
Morgan Stanley Capital International, Inc.		108
Morningstar Principia		44
Oxford Analytica, Ltd.		32
Property & Portfolio Research, Inc.		135
Real Estate Research Corp.		32
Russell Investment Group		50
Standard & Poor's		339
Strategas Securities, LLC		25
Thomson Reuters Markets, LLC		121
Trepp, LLC		55
Zephyr Associates, Inc.		21
Miscellaneous		14
Total Research and Rating Services:	$	1,955

California State Teachers' Retirement System
Schedule of Investment Expenses
(Dollars in Thousands) Schedule IV (Continued)

Risk Management Systems:		
Barclay's Capital	$	113
Barra, Inc.		572
BlackRock Financial Management, Inc.		3,127
Total Risk Management Systems:	$	3,812
Trading Systems		
Bloomberg, LP	$	543
Intex Solutions, Inc.		138
IPC Systems, Inc.		33
MarketAxess Corporation		20
Omgeo, LLC		18
Thomson Reuters Markets, LLC		123
Miscellaneous		7
Total Trading Systems:	$	882
Advisors and Consultants:		
Altius Associates Limited	$	637
Altura Capital Group, LLC		65
Bard Consulting		525
Bonuccelli & Associates, Inc.		783
Callan Associates, Inc.		66
Cambridge Associates		3,880
Capital Hotel Management, LLC		257
Courtland Partners, Ltd.		153
Houlihan Lokey Howard & Zukin		260
Lyxor Asset Management, Inc.		392
Nelson & Bernstein, LLC		79
Pension Consulting Alliance		1,183
Townsend Group		344
Valuation Research Corporation		130
Miscellaneous		10
Total Advisors and Consultants:	$	8,764
Attorneys, Master Custodian and Insurer:		
Aon Risk Services (Insurer)	$	753
Bank of America (Master Servicer-Home Loan Program)		31
Berman Devalerio (Attorney)		25
Bingham Mccutchen, LLP (Attorney)		321
Covington & Burling (Attorney)		140
Cox Castle Nicholson (Attorney)		219
Girard Gibbs, LLP (Attorney)		41
Groom Law Group (Attorney)		170
KPMG, LLP (Auditor)		54
Macias, Gini & O'Connell, LLP (Auditor)		116
Manatt, Phelps & Phillips, LLP (Attorney)		321
Morgan, Lewis & Bockius, LLP (Attorney)		24
Nossaman, LLP (Attorney)		101
Pepper Hamilton, LLP (Attorney)		106
Sheppard Mullin Richter & Hampton (Attorney)		89
State Street Bank (Master Custodian)		4,780
Miscellaneous		3
Total Attorneys, Master Custodian and Insurer:	$	7,294

California State Teachers' Retirement System
Schedule of Investment Expenses
(Dollars in Thousands) **Schedule IV (Continued)**

Corporate Governance:		
Administrative Costs	$	1,515
American Express		63
Asian Corporate Governance Association		10
Broadridge ICS		28
California Public Employees Retirement System		100
Council of Institutional Investors		30
Equilar, Inc.		40
Factset Research System		173
Farient Advisors, LLC		14
Glass Lewis & Co., LLC		206
Governance Metics International		92
Grant & Eisenhofer		92
Idealswork DBA IW Financial		15
Institutional Shareholder Services		495
Investor Communications Network		18
Morgan, Lewis & Bockius, LLP		64
Oxford Analytica, Ltd.		25
PRI Association		12
Stanford Law School		10
Sustainable Investments		25
The Conference Board		31
Thomson Reuters Markets, LLC		11
Trucost, PLC		50
University of Toronto		25
Miscellaneous		54
Total Corporate Governance:	$	3,198
Operating Expenses:		
Administrative Costs		13,079
EFL Associates		38
Pacific Pension Institute		23
Private Equity International Media, Ltd.		12
Miscellaneous		6
Total Operating Expenses:	$	13,158
Total	$	152,307

California State Teachers' Retirement System
Schedule of Consultant and Professional Services Expenses
(Dollars in Thousands) **Schedule V**

State Teachers' Retirement Plan

Individual or Firm	Commission/Fee	Nature of Services
Consulting and Professional Services:		
Accuity, Inc.	$ 39	Consulting Services
Allegiance, Inc.	74	Consulting Services
Background Profiles, Inc.	15	Consulting Services
Benchmark Consulting Services	188	Consulting Services
Berman Devalerio	13	Legal Services
Bingham McCutchen, LLP	107	Legal Services
Burton Group, Inc.	66	Consulting Services
Business Advantage	51	Consulting Services
Cal Dept of Insurance	23	Consulting Services
Cal Gov Technology	427	Consulting Services
Capture Technologies, Inc.	32	Consulting Services
Celer Systems, Inc.	90	Consulting Services
Ciber, Inc.	10,004	Consulting Services
Cohen Milstein Sellers & Toll	117	Legal Services
Comsys Services, LLC	37	Consulting Services
Contra Costa County Office	50	Regional Counseling Services
Cooperative Personnel Services	65	Consulting Services
Crowe Horwath, LLP	349	Auditing Services
Crusade	149	Consulting Services
Daniel J. Edelman, Inc.	270	Consulting Services
Deloitte & Touche, LLP	626	Consulting Services
Department of Justice	414	Consulting Services
DSG Group, Inc.	153	Consulting Services
Employment Development Department	41	Consulting Services
Forrester Research, Inc.	244	Consulting Services
Forward Solutions	123	Consulting Services
Fresno County Office of Education	160	Regional Counseling Services
Gartner, Inc.	1,067	Consulting Services
Genex Services, Inc.	31	Consulting Services
Global Governance Advisors	261	Consulting Services
Goldlink Pacific, Inc.	495	Consulting Services
Grant Thornton, LLP	529	Consulting Services
Graphic-Focus	11	Consulting Services
Groom Law Group, Chartered	12	Legal Services
Hareline Graphics	36	Consulting Services
Hewitt EnnisKnupp, Inc.	42	Consulting Services
Hogan Lovells US, LLP	192	Legal Services
Humboldt County Office of Education	80	Regional Counseling Services
Huron Consulting Services, LLC	1,687	Consulting Services
Infinity Consulting Group, Inc.	748	Consulting Services
Insight Technologies, Inc.	26	Consulting Services
Integratech, Inc.	295	Consulting Services
International Network	82	Consulting Services
Jaykumar Maistry	884	Consulting Services
Jeve Consulting, Inc.	88	Consulting Services
Kent Lacin Media Services, LLC	11	Consulting Services
Kern County Superintendent of Schools	188	Regional Counseling Services
Kiefer Consulting, Inc.	127	Consulting Services
KPMG, LLP	90	Auditing Services
L.R. Wechsler, Ltd.	936	Consulting Services
Los Angeles County Office of Education	309	Regional Counseling Services

California State Teachers' Retirement System
Schedule of Consultant and Professional Services Expenses
(Dollars in Thousands) Schedule V (Continued)

State Teachers' Retirement Plan *(continued)*

Individual or Firm	Commission/Fee	Nature of Services
Consulting and Professional Services:		
M Corporation	78	Consulting Services
Macias, Gini & O'Connell, LLP	13	Auditing Services
Manatt, Phelps & Phillips, LLP	47	Legal Services
Mara Consulting, Inc.	125	Consulting Services
Marketing by Design	18	Consulting Services
Menlo Technologies, Inc.	94	Consulting Services
Metavista Consulting Group	274	Consulting Services
Milliman	599	Consulting Services
Monterey County Office of Education	53	Regional Counseling Services
Montridge Consulting	216	Consulting Services
MSLA, A Medical Corporation	37	Consulting Services
Murphy Austin Adams Schoenfeld, LLP	32	Legal Services
Netprotex, Inc.	16	Consulting Services
NFP Accounting Technologies	11	Consulting Services
Olson Hagel & Fishburn, LLP	22	Legal Services
Orange County Department of Education	340	Regional Counseling Services
Pinnacle Consulting	183	Consulting Services
Placer County Office of Education	79	Regional Counseling Services
Propose	58	Consulting Services
Providence Technology Group	150	Consulting Services
Reed Smith, LLP	126	Legal Services
Robert Yetman	45	Consulting Services
Russbo, Inc.	14	Consulting Services
Sacramento IT Consulting, LLC	173	Consulting Services
San Bernardino County Office of Education	221	Regional Counseling Services
San Diego County Office of Education	247	Regional Counseling Services
San Joaquin County Office of Education	89	Regional Counseling Services
San Jose Unified School District	195	Regional Counseling Services
San Mateo-Foster City School District	40	Regional Counseling Services
Santa Barbara County Office of Education	91	Regional Counseling Services
Santa Cruz County Office of Education	84	Regional Counseling Services
The Segal Company	198	Consulting Services
Shasta County Office of Education	129	Regional Counseling Services
Sierra Metrics, Inc.	312	Consulting Services
Sjoberg Evashenk Consulting	37	Consulting Services
Solano County Office of Education	29	Regional Counseling Services
Staff Tech, Inc.	182	Consulting Services
Stanislaus County Office of Education	82	Regional Counseling Services
State Controller's Office	2,365	Consulting Services
State Personnel Board	109	Consulting Services
Thomas V. Ennis Consulting	169	Consulting Services
Thomas/Ferrous, Inc.	239	Consulting Services
Tulare County Superintendent of Schools	63	Regional Counseling Services
University Enterprises, Inc.	1,292	Consulting Services
Ventura County Superintendent of Schools	97	Regional Counseling Services
Verizon Network Integration	24	Consulting Services
VR Election Services	243	Consulting Services
Yuba County Office of Education	25	Regional Counseling Services
Other	55	Various Services Under $10K
	31,574	
Less: Amounts capitalized	8,248	
Total consultants and professional services	$ 23,326	

California State Teachers' Retirement System
Schedule of Consultant and Professional Services Expenses
(Dollars in Thousands) Schedule V (Continued)

State Teachers' Retirement Plan *(continued)*
Individual or Firm

Data Processing:	**Commission/Fee**	**Nature of Services**
Office of the State Chief Information Officer	6,434	Data Processing
Total data processing	$ 6,434	

IRC 403(b) Plan

Individual or Firm

Consulting and professional services:	**Commission/Fee**	**Nature of Services**
TIAA-CREF	$ 606	Administrative Services
Total consultants and professional services	$ 606	

IRC 457 Plan

Individual or Firm

Consulting and professional services:	**Commission/Fee**	**Nature of Services**
TIAA-CREF	$ 8	Administrative Services
Total consultants and professional services	$ 8	

Teacher's Deferred Compensation Fund

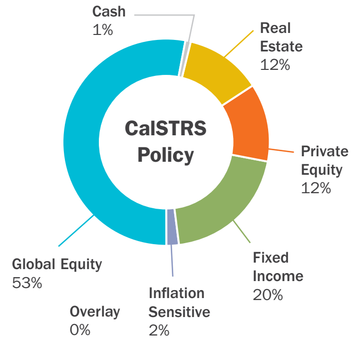
Individual or Firm

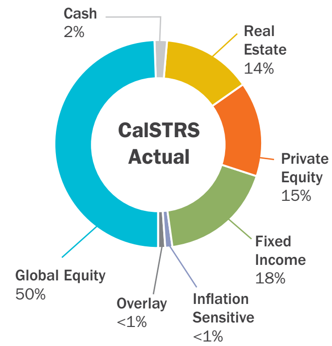
Consulting and professional services:	**Commission/Fee**	**Nature of Services**
California Teachers Association	(2)	Consulting Services
Daniel J. Edelman, Inc.	5	Consulting Services
Jem Resource Partners LP	(2)	Consulting Services
Meridian Wealth Management	46	Consulting Services
Thomas/Ferrous, Inc.	9	Consulting Services
University Enterprises, Inc.	6	Consulting Services
Volt Services Group	95	Consulting Services
Total consultants and professional services	$ 157	

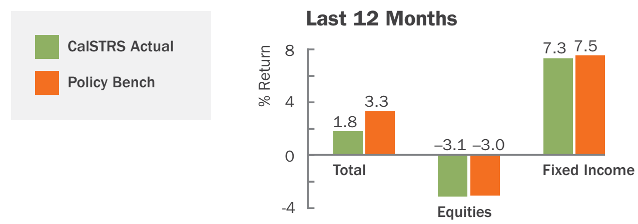
INVESTMENTS

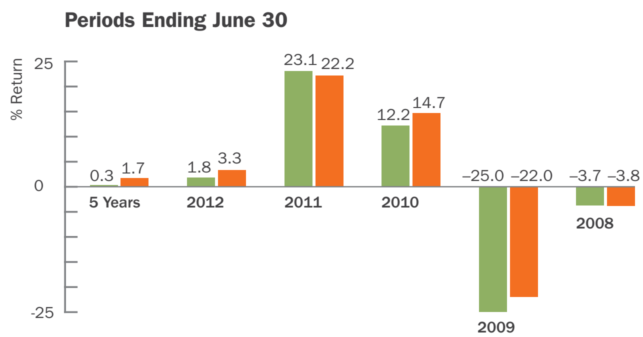
Pension Consulting Alliance, Inc.
Los Angeles • Portland • New York

The CalSTRS investment portfolio decreased by $4.9 billion over the past twelve months, ending with a value of $150.6 billion on June 30, 2012. As highlighted below, the CalSTRS portfolio is broadly diversified, holding investments ranging from publicly traded short-term bonds to privately held partnerships. Clearly, the scale and breadth of investments make the management and oversight of these assets highly complex. In light of these factors, CalSTRS has been effective in utilizing its resources in a cost-efficient manner to ensure that benefits continue to flow to CalSTRS participants.









Investment Allocation

The Board adopts long-term asset allocation targets to be implemented over several years. The fiscal year-end report reflects strategic allocation guidelines for the 2011–2012 fiscal year as adopted by the Board effective July 2011 (see left pie chart). The portfolio's actual allocation is slightly different from policy. As of 6/30/2012, the Private Equity, Real Estate, Cash, and Overlay asset classes were modestly overweighted, while the Global Equity, Fixed Income, and Inflation Sensitive asset classes were slightly underweighted (see right pie chart).

Investment Results

Over the last year, the CalSTRS investment portfolio produced an absolute return of 1.8%, ranking in the second quartile among its large public pension fund peers[1] (top bar chart). During this period, portfolio results underperformed the policy benchmark return by 1.5%.[2] Relative underperformance by the Private Equity and Real Estate asset classes contributed to this result.

During the last three years, CalSTRS' portfolio generated a 12.0% average annual return, underperforming the policy benchmark by 1.1% per year and ranking in the second quartile among peer funds. Underperformance over this time period was largely attributable to the Private Equity and Real Estate asset classes. Over the last five years, the CalSTRS investment portfolio produced an average annual return of 0.3%, trailing its policy benchmark by 1.4% per year (bottom bar chart). These results are primarily below CalSTRS' actuarial rate of return. Successive one-year periods are presented here as well. CalSTRS' portfolio has outperformed its policy benchmark in two of the last five fiscal year periods, ending June 30.[3]

Pension Consulting Alliance, Inc.

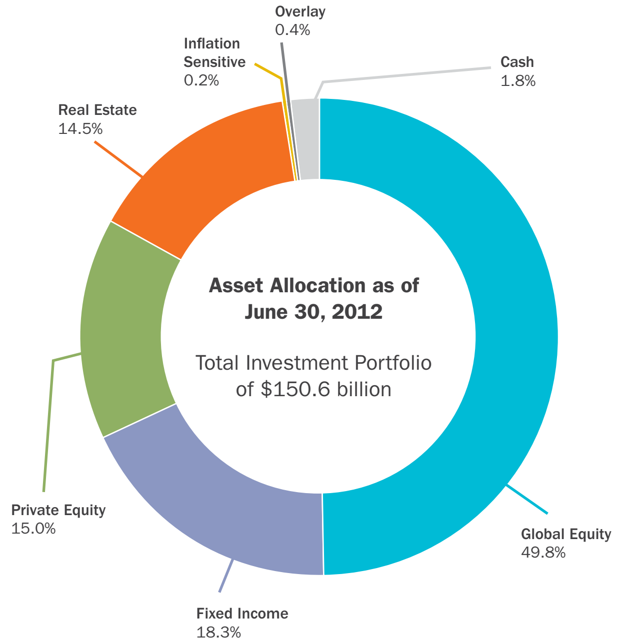
[1]Per TUCS Universe of Master Trust Public Funds with assets in excess of $10 billion.

[2]The policy benchmark consists of passively managed asset class portfolios weighted by CalSTRS' policy allocations. The difference between actual results and the benchmark are due to two factors: i) deviations from policy and ii) active decisions on the part of CalSTRS and its investment managers.

[3]CalSTRS' investment performance is calculated using a daily time-weighted return geometrically linked to calculate a monthly return. Periods longer than one month are geometrically linked to calculate annualized "time-weighted" rates of return.

Investments and the related returns for the CalSTRS Investment Portfolio are presented differently within the Investments and Financial sections of the CAFR. On the preceding pages, in press releases, and on the internet, the investment and related returns are presented using common industry practices that reflect the way in which CalSTRS manages the investment portfolio. The presentation based on industry practices provides timely information that is easily compared to benchmarks and peer results. Within the Financial section, the same information is reported in accordance with Generally Accepted Accounting Principles. The primary difference between the presentations is in the way investments are categorized. Additional differences result from the timing of recognition of performance for long-term investments in the portfolio. In accordance with industry practices, private asset performance is reported with a quarter lag, while for financial reporting purposes, adjustments are made to bring results current through fiscal year end.

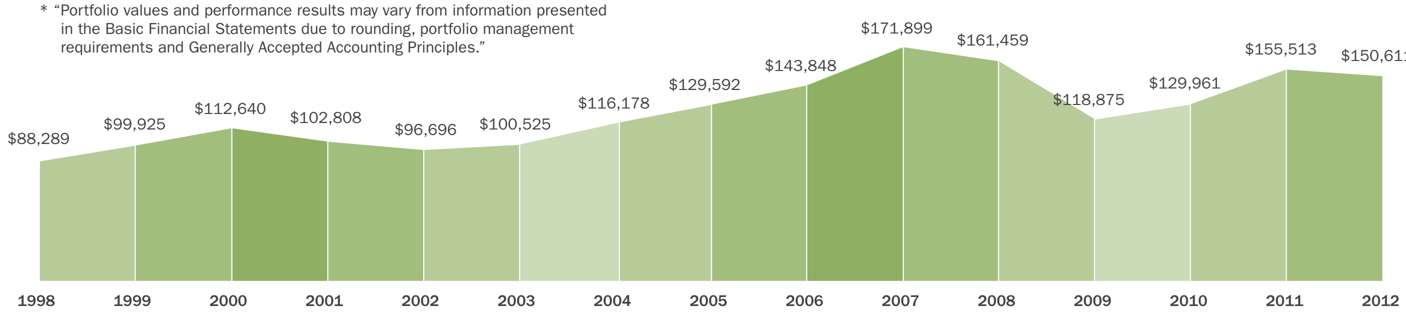
As shown on Table 3, performance information in the CAFR is reported as gross returns and is calculated using a time weighted return methodology. For the most current investment portfolio information, we encourage the CAFR reader to refer to the CalSTRS website. All the information in the investment section of CalSTRS web site is reported in a consistent investment industry standard and is comparable to the global financial markets and other pension plans and institutional investors.



The returns for fiscal year 2011–12, while positive, were well below the actuarial assumed rate. This mirrored the slow anemic growth in the U.S. economy. Roughly 85 percent of the CalSTRS investments are impacted by either the U.S. or global economic activity, therefore when economic growth is low and slow, the global capital markets and the CalSTRS Investment Portfolio do not grow very fast. In fact, thanks to the very last day of the fiscal year, both the U.S. stock market and the Investment Portfolio were able to post a positive return on the year.

Table 1 | Market Value of Investments (dollars in millions)

* "Portfolio values and performance results may vary from information presented in the Basic Financial Statements due to rounding, portfolio management requirements and Generally Accepted Accounting Principles."



The U.S. and Europe are going through a multi-year deleveraging after the decade of the 2000's. Corporations deleveraged fairly quickly after the meltdown of 2008, but individual households and government entities will take three to five years. This has resulted in a very slow anemic economy. In turn, this holds down the global financial markets and limits investment returns for long-term investors like CalSTRS.

While this annual report provides a significant amount of information regarding the CalSTRS Investment Portfolio, it only represents one point in time, June 30, 2012. It is difficult to compare this time measurement to the movement and complexity of the investment portfolio in a highly dynamic global financial market. As previously mentioned, the reader is strongly encouraged to visit the CalSTRS.com website and other publications for more current investment information.

Table 2 | Annual Performance Returns (percent)

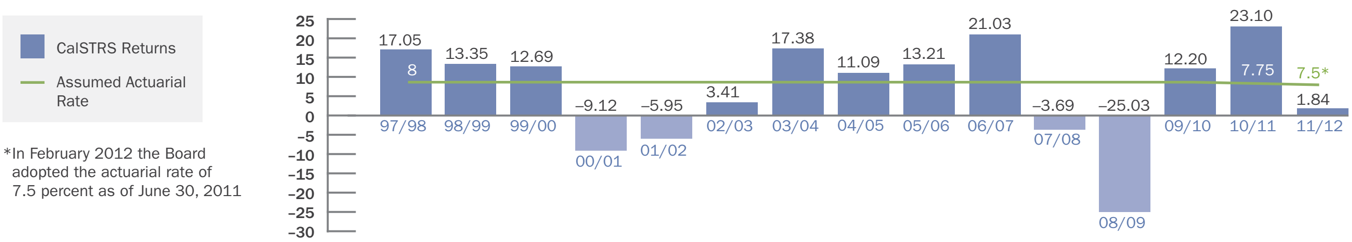


Table 3 | Time-Weighted Performance Returns for Major Asset Categories

Portfolio Type/Associated Indicies	1 Yr	3 Yr	5 Yr	10 Yr
Total Fund	1.84%	12.04%	0.31%	6.51%
Global Equity	**(3.05)**	**13.56**	**(1.29)**	**6.22**
Global Equity Custom[(1)]	(2.99)	13.24	(1.40)	6.10
U.S. Equity	**2.81**	**16.49**	**(0.03)**	**5.75**
Russell 3000	3.41	16.50	0.17	5.63
Non-U.S. Equity	**(14.29)**	**7.60**	**(3.97)**	**6.96**
MSCI All Country World Index ex-U.S.	(14.95)	6.72	(4.79)	6.81
MSCI Europe, Australia, Far East & Canada	(14.58)	5.92	(5.86)	5.25
MSCI Emerging Market	(16.14)	9.64	(0.24)	14.16
Fixed Income	**7.33**	**8.31**	**7.10**	**6.22**
U.S. Debt Custom[(2)]	7.48	7.39	6.92	6.07
Barclays Capital U.S. Aggregate	7.47	6.93	6.79	5.63
Barclays Capital High Yield Cash Pay	7.36	16.20	8.65	10.10
Real Estate	**9.15**	**3.94**	**(6.47)**	**6.48**
Real Estate NCRIEF (lagged 1 quarter)	13.41	5.96	2.89	8.22
Private Equity	**5.93**	**16.44**	**4.98**	**12.85**
Private Equity Custom (lagged 1 quarter)[(3)]	10.02	27.65	7.07	7.33
Inflation Sensitive	**4.91**	**—**	**—**	**—**
Barclays Global Inflation Linked	4.74	—	—	—
Overlay[(4)]	**0.33**	**(0.10)**	**—**	**—**
Overlay Custom[(5)]	—	—	—	—
Liquidity[(6)]	**4.66**	**8.49**	**(0.14)**	**3.89**
Barclays Capital 3-Month Treasury Bill[(7)]	0.07	0.14	1.04	1.87

CalSTRS' investment performance is calculated using a daily time-weighted return geometrically linked to calculate a monthly return. Periods longer than one month are geometrically linked to calculate annualized 'time-weighted' rates of return.

(1) Weighted blend of Russell 3000 tobacco free and MSCI All Country World Index ex-U.S. tobacco free.
(2) 95% Barclays Capital US Aggregate tobacco free + 5% US High Yield Cash Pay 2% Issuer Constrained Index tobacco free. Previously LB US Aggregate tobacco free through 3/31/07.
(3) Blend of the Russell 3000 + 3% & State Street Private Equity Index cumulative pooled internal rate of return data weighted by sub-asset type. Previously Russell 3000 + 5% + 90 day T-Bill from 4/1/99 to 6/30/08.
(4) Overlay asset class was approved by the Board in April 2012. A portion of assets in this category have been held by CalSTRS more then three years.
(5) Barclays Capital 3-Month Treasury Bill plus 1%. Benchmark approved by the Board in April 2012; 1,3,5,10 year returns not available.
(6) Includes the Securities Lending Program loss incurred in FY 08-09 and income earned in subsequent years.
(7) Barclays Capital 3-Mo T-Bill. Previously Citigroup 3-Mo T-Bill prior to 7/1/06.

Overlay

The Overlay asset class was approved by the Board in April 2012, and consists of three separate areas; Innovation, Overlay and Stable Return.

Innovation and Risk (Innovation)

The Innovation portfolio, managed by the Innovation and Risk unit (IR), is a subset of the Overlay asset class with a long range target not to exceed the lesser of 1.5 percent of the total plan assets or $2 billion. As of June 30, 2012, the Innovation portfolio had total assets of $204.5 million. The Innovation Portfolio Policy was approved in March 2009 with the primary goal to identify, research and incubate investment opportunities that currently are not utilized by the Fund. Each new strategy is expected to improve the risk/return efficiency of the total plan or an asset class by increasing its return, decreasing its risk or achieving both. In addition, IR is building a fund-wide risk management process. This new framework will help CalSTRS monitor risk factors driving performance of the investment portfolio. The framework will help improve CalSTRS' investment process and provide tools to lessen the impact of a severe macroeconomic or market event. For more detailed information on the type and commitment size of strategies being incubated, refer to the quarterly investment reports saved in the Investments section of the CalSTRS website.

Currency Management Program (Overlay)

The Currency Management Program, managed by the Fixed Income unit, is designed to address the global nature of all the Fund's assets and attempts to add value. Due to the dynamic and volatile nature of the currency markets, the internally managed Core strategy performance was flat while the Opportunistic external strategy detracted value over the year. Since inception, total program performance has added 61 basis points to the Fund. For more detailed information on the Currency Management Program, you can find the latest annual report available on the CalSTRS website under Teachers' Retirement Board: Public Meeting Notices and Agendas.

Home Loan Program (Stable Return)

The CalSTRS Home Loan Program, managed by the Investments Executive unit, was established by legislation in 1984 and provides the opportunity for home ownership to qualified participants, while meeting CalSTRS investment goals by generating a mortgage asset. Mortgage originations were temporarily suspended on October 1, 2011; however, CalSTRS intends to resume production activity in 2013. As of June 30, 2012, the Home Loan Program had total assets of $412 million.

Fixed Income

At June 30, 2012, the Fixed Income portfolio had total assets of $27.6 billion, representing 18.3 percent of the total fund. The Fixed Income unit operates a diversified portfolio that takes advantage of the benefits and efficiencies of both internal and external asset management. Approximately 84 percent of the portfolio's fixed income assets are managed by internal staff in a core style with a moderate level of risk. The remaining 16 percent is managed by external managers with a higher level of risk and a higher level of expected return. The Fixed Income portfolio underperformed its benchmark by 15 basis points (7.33 percent vs. 7.48 percent) for the fiscal year ending June 30, 2012. The three, five, and ten year returns are positive and outperformed the benchmark by 92, 18, and 15 basis points, respectively. For further and more detailed information, please review the Fixed Income – Quarterly Activity Report on the CalSTRS website.

The Fixed Income unit manages two additional programs: Currency Management, which is discussed in the Overlay section and the Securities Lending Program section.

Table 4 | **Largest Fixed Income Holdings as of June 30, 2012**
(CalSTRS maintains a complete list of portfolio holdings)

Issue	Maturity Date	Interest Rate	Par	Market Value	Average Cost	Unrealized Gain/Loss
US TREASURY N/B	5/31/14	2.250%	310,000,000	$321,311,881	$311,444,060	$9,867,821
US TREASURY N/B	2/28/17	3.000	245,000,000	270,781,338	254,968,404	15,812,934
US TREASURY N/B	11/15/21	2.000	255,950,000	265,322,897	258,471,380	6,851,517
US TREASURY N/B	2/15/20	3.625	225,000,000	264,689,982	226,580,418	38,109,564
US TREASURY STRIP	11/15/16	N/A	260,000,000	252,181,790	211,763,061	40,418,729
US TREASURY N/B	12/15/14	0.250	250,000,000	249,367,505	249,230,734	136,771
US TREASURY N/B	9/30/13	3.125	240,000,000	248,481,592	242,007,624	6,473,968
US TREASURY N/B	11/15/40	4.250	185,000,000	241,904,156	182,871,873	59,032,283
US TREASURY N/B	5/31/17	2.750	200,000,000	219,422,012	203,066,859	16,355,153
US TREASURY N/B	2/15/39	3.500	175,000,000	202,291,266	151,006,849	51,284,417

Security Lending Program

The Securities Lending Program is a low-risk strategy that allows the Fund to use its existing asset based and investment expertise to generate additional income. Over the past year, there have been stronger growth opportunities available in Asia for securities lending, while European and American growth has been more modest. Demand to borrow "specials" (i.e., individual securities with larger spreads) rose in 2011 and became one of the main drivers of earnings growth. For the fiscal year ended June 30, 2012, the Securities Lending Program earned approximately $124 million in additional net income for the Fund. For the latest and most current information on the Securities Lending Program, please consult the Fixed Income – Securities Lending Program 2011 Annual Report available on the CalSTRS website.

Inflation Sensitive

At the end of fiscal year 2011–12, the $315 million Inflation Sensitive portfolio represented 0.2 percent of the total fund with a short-term target allocation of two percent. Global inflation protection securities (GIPS) make up 94.5 percent of this asset class with the balance consisting of Infrastructure.

The Inflation Sensitive portfolio was first adopted by the Teachers' Retirement Board during fiscal year 2009–10. Its objective is to produce inflation-protected income/returns over extended periods of time. The long-term target allocation is five percent of the total fund split evenly between GIPS and Infrastructure. CalSTRS funding strategy was to implement GIPS first and then methodically integrate the more illiquid infrastructure asset types.

The Inflation Sensitive portfolio returned 4.91 percent, outperforming its policy benchmark by 17 basis points (4.91 vs. 4.74 percent) for the fiscal year ending June 30, 2012. The GIPS portfolio had a positive return of 4.59 percent which slightly underperformed its benchmark by 15 basis points (4.59 vs. 4.74 percent), primarily due to the timing of cash flows. The infrastructure portfolio is relatively new, and currently holds assets in limited partnership structures. With the first commitment made in April 2011, but funding not occurring until fiscal year 2011–12, there are no annual performance measurements available as of June 30, 2012. For more information about the Inflation Sensitive portfolio, refer to the Investments section of the CalSTRS website.

Private Equity

The Private Equity portfolio ended the June 30, 2012 fiscal year with a market value of $22.6 billion or 15.0 percent of the total fund. The portfolio consists of investments in limited partnerships which represents 94 percent of the allocation with the remaining 6 percent consisting of co-investments.

Private equity is a long term asset class with performance results influenced by various factors. As shown on Table 3, performance for the period ended June 30, 2012, was mid-single digit returns for the one and five year time periods and double digit returns for the three and ten year periods. The program underperformed its benchmark for the one, three and five year periods but significantly out-performed its benchmark for the ten year period.

This erratic and suboptimal performance pattern relative to the program benchmark (for the shorter time periods) is attributable to several factors including: 1) a benchmark that is tied to the volatile public markets; 2) an over-concentration of limited partnership investments in the pre-financial crisis vintage years (2006–2008); and 3) continuing slow economic growth throughout much of the global economy and limited exit opportunities for many portfolio companies.

For current information on the CalSTRS Private Equity portfolio, please see the Private Equity business plan, quarterly and semiannual reports at CalSTRS.com/investments.

Credit Enhancement

CalSTRS enters into agreements with a number of domestic issuers of debt to provide credit support and/or liquidity support on specific debt obligations. In return, CalSTRS earns fee income for these commitments. As of June 30, 2012, the Credit Enhancement Program had commitments of approximately $1.8 billion and fee income earned during the fiscal year was approximately $12.4 million.

Real Estate

The Real Estate portfolio ended the fiscal year 2011–12 with a market value of $21.8 billion or 14.5 percent of the total fund. The portfolio consists of investments in limited partnership funds, joint ventures, separate accounts, and other investments which account for 48 percent, 34 percent, and 18 percent, respectively.

Real Estate is a long-term asset with performance results influenced by various factors. As shown on Table 3, performance for the period ending June 30, 2012, has turned positive in the most recent one and three year periods reflecting a recovery in the real estate markets. The suboptimal performance relative to the program benchmark is attributable to several factors including; 1) a low-risk benchmark that is based on unleveraged core real estate that has outperformed higher risk investments; 2) an over-concentration of higher risk limited partnership investments in the pre-financial crisis vintage years between 2005–2008; and 3) high leverage on the underlying assets.

For more up to date information on the CalSTRS Real Estate portfolio, please see the Real Estate business plan, as well as the quarterly and semiannual reports at CalSTRS.com/investments.

Global Equity

At the end of fiscal year 2011–12, the $75.1 billion Global Equity portfolio represented 49.8 percent of the total fund. U.S. Equity accounted for 70 percent of the total equity allocation, while Non-U.S. Equity accounted for the remaining 30 percent.

The Global Equity portfolio returned –3.05 percent, underperforming its policy benchmark by 6 basis points (–3.05 vs. –2.99 percent) for the fiscal year ending June 30, 2012. The relative underperformance was driven by the U.S. equity portfolio which underperformed the Russell 3000 ex-tobacco Index by 60 basis points (2.81 percent vs. 3.41 percent). The Non-U.S. equity portfolio had a positive relative return, outperforming the MSCI ACWI ex-U.S. ex-Tobacco Index by 66 basis points (–14.29 percent vs. –14.95 percent). For more information about the Global Equity portfolio, comprehensive Quarterly Investment Reports can be found online at CalSTRS.com/investments.

During fiscal year 2011–12, the Global Equity team focused on three key initiatives; 1) Staff accomplished a major objective of the Fund by increasing the level of internal management. On May 10, 2012, CalSTRS Russell 3000 ex-Tobacco Index portfolio was funded with an initial allocation of approximately $24 billion. 2) Staff began a project to implement a new trade and risk management system. This system will automate trade order management, compliance, accounting, and risk management oversight. 3) Staff continues to carefully evaluate current and potential investment managers. Through this process, assets are rebalanced between investment managers to maximize the risk-adjusted return of the Global Equity portfolio.

Table 5 | **Largest Equity Holdings as of June 30, 2012**
(CalSTRS maintains a complete list of portfolio holdings)

Issue	Shares	Market Value	Average Cost	Unrealized Gain (Loss)
APPLE INC	2,999,033	$1,751,435,272	$1,388,779,916	$362,655,356
EXXON MOBIL CORP	14,591,466	1,248,591,746	1,117,475,173	131,116,573
MICROSOFT CORP	24,697,359	755,492,212	702,986,285	52,505,927
CHEVRON CORP	6,669,116	703,591,738	623,262,146	80,329,592
AT+T INC	19,411,062	692,198,471	608,128,124	84,070,347
INTL BUSINESS MACHINES CORP	3,518,588	688,165,441	624,073,457	64,091,984
GENERAL ELECTRIC CO	32,215,089	671,362,455	607,563,402	63,799,053
JOHNSON + JOHNSON	9,042,144	610,887,249	556,232,632	54,654,617
PFIZER INC	25,326,343	582,505,889	550,672,786	31,833,103
WELLS FARGO + CO	15,286,165	511,169,358	473,933,282	37,236,076

Corporate Governance

During fiscal year 2011–12, CalSTRS voted 67,113 proxy proposals submitted by 6,486 corporations that were held in the portfolio. Some companies had multiple meetings and the Teachers' Retirement Fund ended up voting at 7,197 meetings for portfolio companies. The 67,113 proposals represented a 9.7 percent increase from the 66,572 proposals voted on in 2010–11. The increase in the number of proposals is due to CalSTRS bringing all foreign proxies in-house to vote.

Importantly, the fund now accounts for each individual director as a separate proposal instead of as a slate as in previous years. This will allow CalSTRS to take full advantage of the majority voting standard that many companies have adopted. The major proxy issues voted on are summarized below.

1. Election of Directors: CalSTRS generally votes in favor of a director unless the proxy statement shows circumstances contrary to policy. Examples of such circumstances include: potential conflict of interest due to other directorships or employment, providing legal or investment banking advice and poor board meeting attendance (less than 75 percent).

- Number Voted: 17,764
- Voted For: 11,378 (64 percent)
- Voted Against: 6,386 (36 percent)

2. Selection of Auditors: CalSTRS will vote in favor of the independent auditors recommended by management unless the auditor provides services that run contrary to what CalSTRS policy allows. Examples of such services are: consulting, information system design and implementation, investment banking support and excessive non audit fees (greater than 30 percent of the total fees billed).

- Number Voted: 2,879
- Voted For: 2,630 (91 percent)
- Voted Against: 249 (9 percent)

3. Compensation Plans (Stock Option Plans, Employee Stock Purchase Plans, etc.): Companies provide a variety of compensation plans for executives, employees and non employee directors. Many of these plans provide for the issuance of long-term incentives to attract, reward and retain key employees. Compensation plans are evaluated based on CalSTRS Financial Responsibility Criteria.

- Number Voted: 1,313
- Voted For: 1,060 (81 percent)
- Voted Against: 253 (19 percent)

4. Advisory Vote on Compensation: More commonly known as Say-on-Pay, these are votes that provide shareholders the opportunity to ratify the compensation of the executives named in the proxy. CalSTRS votes on these proposals on a case-by-case basis.

- Number Voted: 2,466
- Voted For: 2,050 (83 percent)
- Voted Against: 416 (17 percent)

5. Approve Merger/Acquisition—Management: CalSTRS evaluates mergers and acquisitions on a case-by-case basis utilizing a total portfolio view.

- Number Voted: 132
- Voted For: 120 (91 percent)
- Voted Against: 12 (9 percent)

6. Corporate Actions/Corporate Governance Issues: These are issues related to spin-offs, incorporation, stock issuance and stock splits. CalSTRS votes on these proposals on a case-by case basis.

- Number Voted: 641
- Voted For: 469 (73 percent)
- Voted Against: 172 (27 percent)

7. Miscellaneous Issues—Management: CalSTRS will vote in favor of other miscellaneous business recommended by management unless the issue to be voted on is contrary to policy. These issues are voted on a case-by-case basis.

- Number Voted: 427
- Voted For: 206 (48 percent)
- Voted Against: 221 (52 percent)

8. Frequency of Advisory Vote on Compensation: More commonly known as Say-When-On-Pay, this vote is a requirement of the Dodd Frank Act and allows shareholders to vote on the frequency of future advisory votes on compensation. Under the rule, shareholder can choose to vote every 1-, 2-, or 3-years. CalSTRS routinely supports annual Say-On-Pay votes.

- Number Voted: 567
- 1-year: 567 (100 percent)
- 2-year: 0 (0 percent)
- 3-year: 0 (0 percent)

9. Shareholder Proposals: CalSTRS votes on a variety of shareholder proposals. Examples of the issues voted on include: removing classified boards of directors, requiring an independent board chairman, eliminating poison pills, tying compensation plans to company performance and requiring shareholder approval for large severance packages.

- Number Voted: 472
- Voted For: 347 (74 percent)
- Voted Against: 125 (26 percent)

The Corporate Governance unit continues to manage nine governance funds, accounting for a combined $3.5 billion in assets under management. All funds invest in governance-poor companies and engage management in securing governance and shareholder value improvement. For the year ending June 30, 2012, the Corporate Governance funds returned –8.22 percent.

Cash Balance Benefit Program

The Cash Balance Benefit Program contributions were invested into pooled funds from inception in February 1997 through June 2001. Sixty percent of the contributions were allocated to the S&P 500 Portfolio and forty percent to the Government Index Portfolio. Beginning July 2001, the program's contributions are invested in the California Teachers Retirement Fund, excluding Private Equity and Real Estate Investments. As of June 30, 2012, the market value was $157.8 million and the rate of return for the Cash Balance Benefit Program for the fiscal year was –0.1 percent.

Defined Benefit Supplement Program

The Defined Benefit Supplement Program contributions were invested in the Teachers' Retirement Fund, excluding Private Equity and Real Estate Investments from January 2001 through June 2011. Beginning July 2011, the programs contributions were invested in the total Teachers' Retirement Fund. As of June 30, 2012, the market value was $7.9 billion and the rate of return for the Defined Benefit Supplement Program for the fiscal year was 1.84 percent.

For further information on the Cash Balance Benefit Program or the Defined Benefit Supplement Program, please see CalSTRS.com.

Table 6 Investment Summary for the Previous and Current Fiscal Year

(dollars in millions)

	June 30, 2011		June 30, 2012			
Portfolio Type	**Book Value**	**Net Asset Value**	**Book Value**	**Net Asset Value**	**% of Net Value Asset**	**Net Value Change**
Global Equity	$64,566	$82,365	$71,613	$75,058	49.8%	$(7,307)
Fixed Income	27,359	27,388	26,677	27,564	18.3%	176
Private Equity	21,224	22,987	22,347	22,589	15.0%	(398)
Real Estate	25,975	18,859	27,890	21,771	14.5%	2,912
Inflation Sensitive	2,660	2,826	308	315	0.2%	(2,511)
Overlay	0	0	580	618	0.4%	618
Cash	1,087	1,088	2,696	2,696	1.8%	1,608
Portfolio Total	**$142,871**	**$155,513**	**$152,111**	**$150,611**	**100.0%**	**$(4,902)**
Adjustments:[1]						
Securities Lending Collateral		25,200		23,690		
Accruals		927		1,674		
Cash & Cash Equiv		(428)		(1,633)		
Plan Assets-Investments		**$181,212**		**$174,342**		

[1]Prior year adjustment made for comparative financial statement purposes.

Table 7 Schedule of Investment Expenses

July 1, 2011 through June 30, 2012 (dollars in thousands)

Investment Categories	Net Asset Value	Investment Expenses	Basis Points
Global Equity	$75,057,892	$94,863	12.6
Fixed Income	27,563,676	14,436	5.2
Private Equity	22,588,525	8,702	3.9
Real Estate	21,771,362	25,099	11.5
Inflation Sensitive	315,196	408	12.9
Overlay	617,560	8,341	**
Cash	2,696,314	458	1.7
Total Assets And Expenses	**$150,610,525**	**$152,307**	**10.1**

**Overlay includes the Currency Management Program (CMP) which calculates basis points using notional values instead of net asset values. The CMP basis points for the year was 14.1 while the remaining assets within the category was 8.3 basis points.

Table 8 | Global Equity Broker Commissions July 1, 2011 Through June 30, 2012

Broker Name	Commission	Shares	Commission Per Share
State Street Bank and Trust Company	$3,919,263	680,161,154	$0.006
JP Morgan	2,456,294	235,448,585	0.010
Credit Suisse Bank	2,124,312	223,811,612	0.009
Goldman Sachs	1,765,217	221,784,099	0.008
Citigroup	1,637,762	134,589,830	0.012
UBS AG	1,532,713	287,071,928	0.005
Instinet	1,493,593	88,910,377	0.017
Deutsche Bank	1,381,147	227,592,470	0.006
Merrill Lynch	1,224,870	113,184,682	0.011
Barclays Capital	761,015	56,932,090	0.013
Other Brokers	11,339,311	1,096,048,172	0.013
Total Commissions	**$29,635,497**	**3,365,534,999**	**$0.009**

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November 20, 2012

Teachers' Retirement Board
California State Teachers' Retirement System

Re: Valuation of the Defined Benefit Program

Dear Members of the Board:

The basic financial goal of the Defined Benefit Program of the California State Teachers' Retirement System (CalSTRS) is to establish contributions which fully fund the obligations and which, as a percentage of payroll, remain level for each generation of active members. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

CalSTRS measures its funding status as the Funded Ratio of the actuarial value of valuation assets over the actuarial accrued liabilities. The funding status based on the past three actuarial valuations is shown below:

Valuation Date	Funded Ratio
June 30, 2009	78%
June 30, 2010	71%
June 30, 2011	69%

Based on the current actuarial assumptions, the current projected income from member, employer, and State contributions will not finance the DB Program on an actuarially sound basis. That is, the expected contributions are not sufficient to fund the annual cost of the program and amortize the Unfunded Actuarial Obligation over a period of 30 years or less.

The June 30, 2011 valuation results are based on the membership data and the asset information provided by CalSTRS. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes, although we have not audited the data at the source. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is found to be materially inaccurate or incomplete, our calculations will need to be revised.

Milliman did not prepare Schedules I and II, or the summary of actuarial methods and assumptions in Schedule II of the Financial Section, nor the information included in this Actuarial Section of the 2012 Comprehensive Annual Financial Report. However, the actuarial information contained in Schedule I of the Financial Section and in this Actuarial Section was derived from our June 30, 2011 actuarial valuation report.

The valuation is based on our understanding of the current benefit provisions of the DB Program and the actuarial assumptions which were last reviewed and adopted by the Board in February of 2012. Revised economic assumptions were also adopted at the February 2012 meeting. The assumptions will be reviewed in detail again in 2015.

The actuarial computations presented in the valuation report are for purposes of determining the recommended funding amounts for CalSTRS consistent with our understanding of their funding requirements and goals. The liabilities are determined by using the entry age normal funding method. The actuarial assets are determined by using a one-third smoothed recognition method of the difference between the actual market value to the expected actuarial value.

We believe the actuarial assumptions and methods are internally consistent, reasonable and meet the parameters of Governmental Accounting Standards Board Statement No. 25 for fulfilling financial accounting requirements. Nevertheless, the emerging costs will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions. Future actuarial measurements may differ significantly from the current measurements as presented in the valuation report due to many factors. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Our valuation report and this letter have been prepared exclusively for CalSTRS for a specific and limited purpose. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. It is a complex, technical analysis that assumes a high level of knowledge concerning CalSTRS operations, and uses CalSTRS data, which Milliman has not audited. No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

We certify that the June 30, 2011 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Respectfully submitted,

Mark C Olleman   Nick Collier

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Principal and Consulting Actuary

Nick J. Collier, ASA, EA, MAAA
Principal and Consulting Actuary

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Defined Benefit Program

Summary of Actuarial Assumptions and Methods

CalSTRS, through its consulting actuary, performs an experience study every four years to determine appropriate demographic and economic assumptions. These assumptions are then applied when the consulting actuary performs an actuarial valuation to monitor the funding status of the Defined Benefit Program. The study was adopted by the Teachers' Retirement Board on February 2, 2012.

The most recent experience study for 2006–2010 was completed as of June 30, 2010. The most recent actuarial valuation was completed as of June 30, 2011 and adopted by the Teachers' Retirement Board on April 12, 2012.

The following summary and tables were prepared by CalSTRS staff. All of the assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on February 2, 2012.

The following is a summary of the assumptions adopted by the Teachers' Retirement Board for this program:

- Investment return rate is 7.50 percent.
- Method used to value program assets for actuarial valuation purposes: expected actuarial value adjusted for one-third of the difference between actual market value and expected actuarial value.
- Assumption for general wage increase is 3.75 percent, of which 3.00 percent is due to inflation and 0.75 percent is due to expected gains in productivity.
- The actuarial cost method used by the program is the entry age normal actuarial cost method.
- The extent to which benefits are expected to increase as a result of cost-of-living type adjustments is an annual 2 percent increase to the initial benefit beginning on September 1 following the first anniversary of the effective date of the benefit. Since 1972, this increase is applied to all eligible continuing benefits.

Discussion of recent changes:

The nature of the program—Since the last experience study as of June 30, 2011, no program amendments have been made that have affected the June 30, 2011 actuarial valuation.

Changes to the plan: Effective January 1, 2013 Chapter 296, Statutes of 2012 (AB 340-Furutani), was enacted in 2012. The new law reduces retirement benefits for teachers who became members after 2012. Specifically, for new members some of the key provisions of the law are: 1) the benefit factors at all ages less than age 65 are reduced; 2) final compensation is based on a 36-month period; 3) the definition of creditable compensation is restricted; and, 4) compensation for benefit purposes is limited to no more than 120% of the Social Security taxable wage base. Additional changes that do not directly affect the calculated retirement benefits apply to all members. Changes due to AB 340 are not reflected in the following tables, but will be reflected in future valuations.

Funding: Prior to the adoption of the current assumptions, CalSTRS took legal action to compel the state to contribute the $500 million that was reduced for FY 03/04 to the SBMA. On August 30, 2007, the Third District Court of Appeal in Sacramento issued a decision requiring the state to pay CalSTRS $500 million plus interest for the withheld contribution from fiscal year 2003–04.

On September 6, 2007, the State paid CalSTRS $500 million in interest plus a portion of the withheld contributions. In addition the State has made payments of $56,979,949 for fiscal year 2011–12 to CalSTRS in interest and a portion of withheld contributions.

Actuarial assumptions: The actuarial valuation utilizes various methods and two different types of assumptions: economic and demographic. Economic assumptions are related to the general economy and its impact on CalSTRS or to the operation of the membership. Demographic assumptions predict the future experience of the membership with respect to eligibility and benefits and are directly related to the specific experience of CalSTRS members.

Economic assumptions: The two major economic assumptions are investment return and wage growth and each is affected by the underlying assumed rate of inflation. Table 5 provides the new economic actuarial assumptions for this program as reflected in the most recent actuarial valuation as of June 30, 2011.

Demographic assumptions: Tables 1–4 and 6–9 provide new demographic assumption information for this program as reflected in the most recent actuarial valuation as of June 30, 2011.

Actuarial Methods

The asset smoothing method projects an Expected Value of Assets using the assumed rate of investment return, then one-third of the difference between the Expected Value and the Market Value is recognized in the Actuarial Value of Assets. There were no revisions to either the Actuarial Cost Method or the Asset Valuation Method for this actuarial valuation.

Valuation Results

CalSTRS contracts for many actuarial services. The current contractor, Milliman, has been the program's actuary since January 15, 2000.

Tables 10–13 provide summaries of the valuation results. The data displayed in Table 10 is as of June 30 of the specified year. Other information, specifically annual payroll amounts, reported in the financial section of this report will generally not be consistent with this data. The reason for this is that the financial data reflects payroll for all individuals who were active during the year, while Table 10 only includes those individuals who are active as of June 30. It does not include those individuals who were active at some point during the year but not as of June 30.

Amounts provided in Table 11 represent the status of the population as of June 30 of the indicated year. The information provided in "The Removed from Rolls" and "Rolls End of Year" columns include the application of the annual post-retirement 2 percent not-compounded cost-of-living adjustment.

The data provided for each year end in Table 11 is a snapshot of the population taken following year-end closing for the indicated period. It is likely adjustments will be made subsequent to this closing. No attempt is made to update the data in Table 11 for these adjustments.

The following significant plan changes have taken place during the time depicted in Table 12. These program amendments include:

Effective January 1, 2005

- Recalculated benefits to part-time and adult education community college employees who were members prior to July 1, 1996.
- Expanded eligibility for partial lump-sum benefits.
- Eliminated one-year prohibition on employment in a California public school for members who receive a Retirement Incentive benefit.
- Extended five-year prohibition on post-retirement employment with an incentive granting employer to Community College and County Office of Education members.

- Extended existing post-retirement earnings exemption for retired members who fill a vacant administrative position in an emergency situation for up to two years.
- Extended retirement date and sunset date for other existing post-retirement earnings exemptions.
- Allowed up to 0.2 of one year of unused sick leave service credit to count towards qualifying for one-year final compensation, longevity bonus and other benefit enhancements.

Effective January 1, 2009

Funding

- Effective with fiscal year 2009–10 through fiscal year 2012–13, payment of previously withheld contributions and interest of $56,979,949, will be made each fiscal year to the SBMA.
- Actuarial Valuations for the Defined Benefit Program will be completed every year.

The most recent actuarial valuation of the system as of June 30, 2011, determined there is an unfunded actuarial obligation for this program. The prior actuarial valuation as of June 30, 2010, also indicated there was an unfunded actuarial obligation.

With one exception, actuarial valuations have been performed every year since June 30, 1997, to analyze the sufficiency of the statutory contributions to meet the current and future obligations of the program. By using the actuarial methods and assumptions adopted by the Teachers' Retirement Board, the actuarial valuation provides the best estimate of the program's long-term financing.

Comparing the unfunded actuarial obligation as of two valuation dates does not provide enough information to determine if there were actuarial gains or losses. The correct comparison is between the unfunded actuarial obligation on the valuation date and the expected unfunded actuarial obligation projected from the prior valuation date using the actuarial assumptions in effect for the period of comparison.

Actuarial gains reduce the unfunded actuarial obligation as of the valuation date, and actuarial losses increase the unfunded actuarial obligation. Most actuarial gains and losses are a result of short-term fluctuations in experience or changes in actuarial assumptions. Because of the long-term nature of actuarial assumptions, future patterns of emerging experience may offset these short-term fluctuations.

Independent Actuarial Review

Actuarial services for the California State Teachers' Retirement System are provided under contract by a qualified independent actuarial firm, with additional review provided by the actuarial staff.

Through the competitive bid process, the work of a prior actuary will be verified in a subsequent actuarial valuation performed by a new contract actuary. Should the same actuarial firm continue for a period of 10 years, provision is made for an independent review of that firm's work through an actuarial audit completed by another firm. These audit services are acquired using the competitive bid process.

An audit of the 2007 Actuarial Experience Analysis of the Defined Benefit Program was performed by the firm The Segal Company. The result of the audit was reported to the board on September 8, 2011.

An audit of the 2008 Actuarial Valuation of the CalSTRS Defined Benefit Program was performed by the firm Cheiron. The result of the audit was reported to the Teachers' Retirement Board on February 11, 2011.

The current actuarial consultant was retained on January 15, 2000 and in 2006 and 2012, as a result of the competitive bid process.

Summary of Defined Benefit Program Provisions

The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2011 actuarial valuation.

Normal Retirement

Eligibility Requirement

Age 60 with five years of credited service.

Benefit

2 percent of final compensation for each year of credited service.

Benefit Factors

Credited Service

For each year of membership, credited service is granted based on the ratio of salary earned to full-time salary earnable for one position.

No more than one full year of service credit is allowed during any school year; however, the contributions for any service in excess of one year are deposited to the member and employer contribution accounts within the Defined Benefit Supplement Program.

Final Compensation

For members with 25 years of service, the calculation is based on the highest average annual compensation earnable in a consecutive 12-month period. For members with fewer than 25 years of service, the calculation is based on the average salary earnable for the highest three consecutive years of credited service for one position.

Sick Leave Service Credit

Credited service is granted for unused sick leave at the time of retirement. Sick leave service credit of up to 0.2 years of credited service may be used for eligibility for one-year final compensation or to attain the career factor or the longevity bonus.

Career Factor

If a member has 30 years of credited service, the age factor is increased up to 0.2 percent. However, the maximum age factor is 2.4 percent.

Longevity Bonus

For members attaining 30 years of service by January 1, 2011, a longevity bonus of $200 per month is added to the Member-Only Benefit. The bonus is increased to $300 per month with 31 years of service and $400 per month with 32 or more years of service.

Post-Retirement Benefit Adjustment

Benefit Improvement Factor

Two percent simple increase on September 1 following the first anniversary of the effective date of the benefit, applied to all continuing benefits.

IRC Section 401(a)(17)

Compensation is limited under Internal Revenue Code section 401(a)(17) and assumed to increase at the rate of inflation.

IRC Section 415(b)

Benefits are subject to limits imposed under Internal Revenue Code section 415(b). However, no limits are imposed in the valuation of the Defined Benefit Program in order to address the potential pay-as-you-go funding needs of the Teachers' Replacement Benefits Program Fund.

Early Retirement

Eligibility Requirement

Age 55 with five years of credited service, or age 50 with 30 years of credited service.

Benefit Reduction

A 1/2 percent reduction in the normal retirement benefit for each full month or partial month the member is younger than age 60, plus a reduction of 1/4 percent for each full month or partial month the member is younger than age 55.

Late Retirement

Benefit

Members continue to earn additional service credit after age 60. The two percent age factor increases by 0.033 percent for each quarter year of age that the member is over age 60, up to a maximum of 2.4 percent.

Deferred Retirement

Benefit

Any time after satisfying the minimum service requirement, a member may cease active service, leave the accumulated contributions on deposit, and later retire upon attaining the minimum age requirement.

Disability Allowance—Coverage A

Eligibility Requirement

Member has five years of credited California service and has not attained age 60, or if a member has earned one year of creditable service and is disabled due to an unlawful act of bodily harm committed by another person while performing creditable service.

Benefit

Fifty percent of final compensation.

- or -

Five percent of final compensation for each year of service credit if over age 45 with fewer than 10 years of service credit.

Children's Benefit

Ten percent for each eligible dependent child, up to a maximum of 40 percent of final compensation. The increment for each eligible child continues until the child marries or attains age 22.

Offsets

Benefit, including children's increment, is reduced by disability benefits payable under Social Security, workers' compensation and employer-paid income protection plan.

Disability Allowance—Coverage B

Eligibility Requirement

Member has five years of credited California service, or if a member has earned one year of creditable service and is disabled due to an unlawful act of bodily harm committed by another person while performing creditable service.

Benefit

Fifty percent of final compensation, regardless of age and service credit.

Children's Benefit

Ten percent for each eligible child up to four children, for a maximum of 40 percent of final compensation. The increment for each child continues until the child attains age 21, regardless of student, marital or employment status.

Offsets

The member's benefit is reduced by disability benefits payable under workers' compensation.

Death Before Retirement—Coverage A

Eligibility Requirement

One or more years of service credit for active members or members receiving a disability benefit.

Lump-Sum Payment

The one-time death benefit recipient receives a $6,163 lump-sum payment.

Benefit

The surviving spouse or registered domestic partner with eligible children will receive a family benefit of 40 percent of final compensation for as long as there is at least one eligible child. An additional 10 percent of final compensation is payable for each eligible child up to a maximum benefit of 90 percent.

If there is no surviving spouse or registered domestic partner, a benefit of 10 percent of final compensation is payable to eligible children up to a maximum benefit of 50 percent.

When there are no eligible children, the spouse or registered domestic partner may elect to receive one-half of a 50 percent joint and survivor benefit projected to age 60 or take a lump-sum payment of the remaining contributions and interest.

Death Before Retirement—Coverage B

Eligibility

One or more years of service credit for active members.

Lump-Sum Payment

The one-time death benefit recipient receives a $24,652 lump-sum payment.

Benefit

A lump-sum payment of the contributions and interest.

- or -

One-half of a 50 percent joint and survivor benefit, beginning on the member's 60th birthday or immediately with a reduction based on the member's age and that of the spouse or registered domestic partner at the time the benefit begins.

If the surviving spouse or registered domestic partner elects a monthly benefit, or there is no surviving spouse, each eligible child would receive 10 percent of the member's final compensation, with a maximum benefit of 50 percent.

Death After Retirement

Lump-Sum Payment

The one-time death benefit recipient receives a $6,163 lump-sum payment.

Members of retirement age may make a pre-retirement election of an option to designate a beneficiary.

Annuity Form

If the retired member had elected one of the joint and survivor options, the retirement benefit would be reduced in accordance with the option elected.

If no option had been elected, payment of the unpaid contributions and interest, if any, remaining in the member's account will be made to the beneficiary, if one is named, or to the deceased member's estate.

Termination from CalSTRS

Refund

Refund of the member's contributions with interest as credited to the member's account to date of withdrawal. A refund terminates membership and all rights to future benefits from the program.

Re-entry After Refund

Former members who re-enter the program may redeposit all amounts previously refunded plus regular interest. The member must earn one year of credited service after re-entry before becoming eligible for program benefits.

Funding

Member Contribution

Eight percent of creditable compensation.

Employer Contribution

Eight percent of the total creditable compensation on which member contributions are based. In addition, funding for the Teachers' Health Benefits Fund and Teachers' Replacement Benefit Fund is directed as needed from the employer contributions on a pay-as-you-go basis.

- plus -

0.25 percent of the total creditable compensation on which members' contributions are based to pay costs for unused sick leave service credit.

State Contribution

The state pays 2.017 percent of the total creditable compensation of the fiscal year ending in the immediately preceding calendar year upon which members' contributions are based, calculated annually on October 1 and updated on or before the subsequent April 15th and paid in four equal quarterly payments.

- plus -

Up to 1.505 percent of the total creditable compensation of the fiscal year ending in the immediately preceding calendar year upon which members' contributions are based, calculated annually on October 1 and updated on or before the subsequent April 15th and paid in four equal quarterly payments. This contribution is made if there is an unfunded obligation or normal cost deficit for benefits in effect on July 1, 1990. Due to an unfunded actuarial obligation as of June 30, 2010 related to the 1990 Benefit Structure, an additional 0.524 percent contribution was made in 2011–12.

Changes in Defined Benefit Program Provisions

None

Table 1 Post-Retirement Mortality Table for Sample Ages

	Male	Female
Age	2011	2011
50	0.114%	0.073%
55	0.164	0.118
60	0.300	0.254
65	0.596	0.468
70	1.095	0.864
75	1.886	1.451
80	3.772	2.759
85	7.619	5.596
90	14.212	11.702
95	22.860	17.780

All demographic assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on February 2, 2012.

Table 2 Service Retirement

(sample ages)[1]

		DB Program Benefits		
	Age	1990 Benefits	Under 30 years	30 or More Years
Male	55	5.8%	2.7%	8.0%
	60	25.0	6.3	27.0
	65	20.0	13.5	32.5
	70	100.0	10.8	30.0
	75	100.0	100.0	100.0
Female	55	7.0%	4.5%	9.0%
	60	22.0	9.0	31.0
	65	18.0	14.4	37.5
	70	100.0	13.5	35.0
	75	100.0	100.0	100.0

[1]Probabilities of retirement are adjusted for members with service between 25 and 30 years.

Table 3 Probabilities of Withdrawal from Active Service Before Age and Service Retirement for Sample Age

Duration	
Male	
1	13.0%
2	9.0
3	6.4
4	4.6
5	3.9
10	1.8
15	0.9
20	0.5
25	0.3
Female	
1	12.0%
2	8.5
3	6.4
4	4.6
5	3.9
10	1.8
15	0.9
20	0.5
25	0.3

Table 3 Probabilities of Refund by Sample Duration of Members and Sample Entry Ages (continued)

	Entry Ages				
Duration	Under 25	25–29	30–34	35–39	40+
Male					
Under 5	100%	100%	100%	100%	100%
10	46	46	38	36	36
15	38	38	31	21	—
20	28	31	15	—	—
25	15	15	—	—	—
Female					
Under 5	100%	100%	100%	100%	100%
10	34	32	32	29	29
15	27	24	24	24	—
20	19	14	14	—	—
25	10	10	—	—	—

Table 4 Assumption for Pay Increases Due to Promotions and Longevity for Sample Ages

(exclusive of the assumed general wage increase, which includes inflation)

	Entry Ages					
Duration	Under 25	25–29	30–34	35–39	40–44	45+
1	5.6%	5.3%	5.1%	4.8%	4.8%	3.5%
5	5.5	4.8	4.5	3.8	3.8	2.6
10	3.2	3.0	2.7	2.3	2.2	1.6
20	1.3	1.1	1.1	0.8	0.8	0.6
30	0.9	0.7	0.6	0.5	—	—
40	0.8	0.6	—	—	—	—

Table 5 Economic Assumptions

Consumer Price Inflation	3.00%
Investment Yield (Net of Expenses)	7.50
Wage Inflation	3.75
Interest on Member Accounts	4.50

Table 6 Mortality Assumptions

	Retired Members[1]
Male	2011 CalSTRS Retired-M
Female	2011 CalSTRS Retired-F
	Active Members
Male	2011 CalSTRS Retired-M (-2 years)
Female	2011 CalSTRS Retired-F (-2 years)
	Beneficiaries[1]
Male	2011 CalSTRS Beneficiary-M
Female	2011 CalSTRS Beneficiary-F

[1]Future retirees and beneficiaries are valued with a two-year age setback.

Table 7 Termination from Disability Due to Death[1]

Male	
Age	
<70	2% at age 40 and under, graded to 3.2% at age 70
>70	RP 2000 male white collar +7 projected to 2025 at age 70 smoothed to +1 age 85 (select rates in first three years, regardless of age)
Female	
Age	
<70	1.5% at age 40 and less graded to 2.25% at age 70
>70	RP 2000 female white collar +6 projected to 2025 at age 70 smoothed to +2 at age 80 (select rates in first three years, regardless of age)

[1]Future disabled members are valued with a two-year age setback.

Table 8 Disability Rates

(sample ages)

Coverage A		
Male	25	0.018%
	30	0.027
	40	0.072
	50	0.144
	55	0.189
Female	25	0.018%
	30	0.027
	40	0.081
	50	0.198
	55	0.252

Coverage B		
Male	25	0.010%
	30	0.020
	35	0.030
	40	0.060
	45	0.100
	50	0.140
	55	0.245
Female	25	0.020%
	30	0.020
	35	0.040
	40	0.070
	45	0.110
	50	0.185
	55	0.300

Table 9 | Schedule of Active Member Valuation Data

Date (as of June 30)	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
2005	450,282	$23,256,622,046	$51,649	1.7
2006	453,365	24,239,606,097	53,466	3.5
2007	455,693	25,905,691,360	56,849	6.3
2008	461,378	27,118,230,762	58,777	3.4
2009	459,009	27,327,386,616	59,536	1.3
2010	441,544	26,274,889,981	59,507	0.0
2011	429,600	25,576,008,636	59,534	0.0

Table 10 | Schedule of Retired Members and Beneficiaries Added to and Removed from Rolls

	Added to Rolls		Removed from Rolls		Rolls – End of Year			
Date (as of June 30)	Number	Annual Benefits[1]	Number	Annual Benefits[1]	Number	Annual Benefits[1]	% Increase	Average Annual Benefits
2005	12,489	519,053	5,846	118,053	201,241	6,018,468	9.5%	29,907
2006	11,517	489,261	6,252	132,275	207,846	6,505,067	8.1%	31,298
2007	12,457	562,542	6,162	137,474	215,641	7,078,199	8.8%	32,824
2008	13,246	626,567	6,419	147,966	223,968	7,711,132	8.9%	34,430
2009	13,420	657,984	6,163	149,998	228,969	8,340,671	8.2%	36,427
2010	16,201	777,293	6,499	165,404	243,796	9,171,309	10.0%	37,619
2011	14,559	671,868	6,938	181,927	253,041	9,802,995	6.9%	38,741
2012	14,316	635,935	6,860	187,271	262,039	10,458,555	6.7%	39,912

[1]Dollars in thousands

Table 11 | Solvency Test

	Aggregate Accrued Liabilities For (in millions)				Funding of Liabilities		
Valuation Date (as of June 30)	(1) Active Member Contributions on Deposit	(2) Future Benefits to Benefit Recipients	(3) Service Already Rendered by Active Members	Actuarial Value of Assets	(1)	(2)	(3)
2005	$24,619	$63,762	$53,812	$121,882	100.0%	100.0%	62.3%
2006	25,124	68,774	56,974	131,237	100.0	100.0	65.5
2007	25,895	75,612	65,622	148,427	100.0	100.0	71.5
2008	26,881	81,984	68,869	155,215	100.0	100.0	67.3
2009	27,477	88,927	69,279	145,142	100.0	100.0	41.5
2010	27,105	99,135	70,075	140,291	100.0	100.0	20.1
2011	27,038	109,984	71,383	143,930	100.0	100.0	9.7

Table 12 | Analysis of Financial Experience

(gains and losses in unfunded actuarial obligation resulting from differences between assumed and actual experience) (dollars in millions)

	Actuarial Valuation as of June 30	
	2011 (2010)	2010 (2009)
Actuarial Obligation at June 30:	$196,315	$185,683
Normal Cost	$4,587	4,605
Benefit Payments	(9,685)	(8,941)
Expected Interest	15,021	14,685
Expected Actuarial Obligation at June 30:	206,238	196,032
Expected Actuarial Value of Assets at June 30:	146,080	152,418
Expected UAO at June 30	60,158	43,614
Actuarial (Gains) or Losses		
Change in Assumptions	6,389	4,384
Investment Return Assumptions	1,176	10,931
Demographic Assumptions	(4,222)	(4,101)
Net Change Other Sources	974	1,196
Total Actuarial (Gains) & Losses	4,317	12,410
Unfunded Actuarial Obligation at June 30	$63,840	$56,024
Funded Ratio	69%	71%

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November 20, 2012

Teachers' Retirement Board
California State Teachers' Retirement System

Re: Valuation of the Defined Benefit Supplement Program

Dear Members of the Board:

The basic financial goal of the Defined Benefit Supplement (DBS) Program of the California State Teachers' Retirement System (CalSTRS) is to maintain sufficient resources to fully fund the obligations. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

CalSTRS measures its funding status as the Funded Ratio of the actuarial value of valuation assets over the actuarial accrued liabilities. The funding status based on the past three actuarial valuations is shown below:

Valuation Date	Funded Ratio
June 30, 2009	78%
June 30, 2010	86%
June 30, 2011	104%

The market gain for the fiscal year ended in 2011 caused a significant increase in the Funded Ratio. As of June 30, 2011, the Market Value of Assets for the DBS Program exceeds the Actuarial Obligation.

The June 30, 2011 valuation results are based on the membership data and the asset information provided by CalSTRS. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes, although we have not audited the data at the source. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is found to be materially inaccurate or incomplete, our calculations will need to be revised.

Milliman did not prepare Schedules I and II, nor the summary of actuarial methods and assumptions in Schedule II of the Financial Section, nor the information included in this Actuarial Section of the 2012 Comprehensive Annual Financial Report. However, the actuarial information contained in Schedule I of the Financial Section and in this Actuarial Section was derived from our June 30, 2011 actuarial valuation report.

The valuation is based on our understanding of the current benefit provisions of the DBS Program and the actuarial assumptions which were last reviewed and adopted by the Board in February of 2012. Revised economic assumptions were also adopted at the February 2012 meeting. The assumptions will be reviewed in detail again in 2015.

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The actuarial computations presented in the valuation report are for purposes of determining the recommended funding amounts for CalSTRS consistent with our understanding of their funding requirements and goals. The liabilities are determined by using the traditional unit credit funding method. The actuarial assets are equal to fair market value.

We believe the actuarial assumptions and methods are internally consistent, reasonable and meet the parameters of Governmental Accounting Standards Board Statement No. 25 for fulfilling financial accounting requirements. Nevertheless, the emerging costs will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions. Future actuarial measurements may differ significantly from the current measurements as presented in the valuation report due to many factors. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Our valuation report and this letter have been prepared exclusively for CalSTRS for a specific and limited purpose. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. It is a complex, technical analysis that assumes a high level of knowledge concerning CalSTRS operations, and uses CalSTRS data, which Milliman has not audited. No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

We certify that the June 30, 2011 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Respectfully submitted,

Mark C Olleman

Nick Collier

Mark C. Olleman, FSA, EA, MAAA	Nick J. Collier, ASA, EA, MAAA
Principal and Consulting Actuary	Principal and Consulting Actuary

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Defined Benefit Supplement Program

Summary of Actuarial Assumptions and Methods

CalSTRS, through its consulting actuary, performs an experience study at least every four years to determine appropriate demographic and economic assumptions. These assumptions are then applied every year when the consulting actuary performs an actuarial valuation to monitor the funding status of the Defined Benefit Supplement Program. The most recent actuarial valuation was completed as of June 30, 2011, and adopted by the Teachers' Retirement Board April 12, 2012. The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2011 actuarial valuation.

The Defined Benefit Supplement Program was established January 1, 2001. The demographic assumptions were based on those adopted for the Defined Benefit Program by the Board on February 2, 2012, and were used to complete the latest actuarial valuation. The Defined Benefit Program and Defined Benefit Supplement Program share the same population, so it is reasonable to use most of the same assumptions for both programs. All of the assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on February 2, 2012. Following are the assumptions adopted by the Teachers' Retirement Board for this program.

- Investment return rate is 7.50 percent.
- Method used to value plan assets for actuarial valuation purposes: Fair market value.
- Assumption for general wage increase is 3.75 percent, of which 3.00 percent is due to inflation and 0.75 percent is due to expected gains in productivity.
- The actuarial cost method used by the program is the traditional unit credit cost method.
- The Defined Benefit Supplement Program does not provide cost-of-living adjustments for benefit recipients.

Discussion of recent changes in:

The nature of the program—The Defined Benefit Supplement Program is a relatively new program, established January 1, 2001. All provisions of the program were considered when completing the most recent actuarial valuation.

Actuarial assumptions—The following assumptions were used to complete the valuation for this program.

Under the traditional unit credit actuarial cost method, neither the economic nor the demographic assumptions affect the actuarial obligation for the DBS Program. Those assumptions for this program will have minimal impact under the traditional unit credit cost method or only have significance when participants elect to annuitize the account balance. Under the program, a member must have at least $3,500 in his or her account to elect to annuitize the account balance.

The actuarial methods used for the program's actuarial valuation as of June 30, 2011, result in an actuarial surplus of $281,195,000.

CalSTRS contracts for many actuarial services. The current contractor, Milliman, has been CalSTRS actuary from the program's inception.

There are no other specific assumptions that have a material impact on valuation results for this program.

Independent Actuarial Review

Actuarial services for the California State Teachers' Retirement System are provided under contract by a qualified independent actuarial firm, with additional review provided by the actuarial staff.

Through the competitive bid process, the work of a prior actuary will be verified in a subsequent actuarial valuation performed by a new contract actuary. Should the same actuarial firm continue for a period of 10 years, provision is made for an independent review of that firm's work through an actuarial audit completed by another firm. These audit services are acquired using the competitive bid process.

An audit of the 2007 Actuarial Experience Analysis of the Defined Benefit Supplement Program was performed by the firm The Segal Company. The result of the audit was reported to the Teachers' Retirement Board on September 8, 2011.

The current actuarial consultant was retained on January 15, 2000 and in 2006 and 2012, as a result of the competitive bid process.

Summary of Defined Benefit Supplement Program Provisions

The following tables and summary were prepared by CalSTRS staff. All information is considered in the June 30, 2011 actuarial valuation.

Membership

Eligibility Requirement

All members of the Defined Benefit Program who perform creditable service and earn creditable compensation after December 31, 2000, have a Defined Benefit Supplement account.

Member

An eligible employee with creditable service subject to coverage, who has contributions credited in the program or is receiving an annuity from the program.

Account Balance

Account Balance

Nominal accounts are established for the purpose of determining DBS benefits payable to the member. Accounts are credited with contributions, interest at the minimum interest rate, and, if applicable, additional earnings credits.

Contributions

Member and employer contributions are credited to the member's DBS account for service greater than one year during a single school year and compensation for limited-term enhancements and retirement incentives.

Minimum Interest Rate

Annual rate determined for the plan year by the Teachers' Retirement Board in accordance with federal laws and regulations. The minimum interest rate is equal to the average of the yields on 30-year Treasury Notes for the twelve months ending in February preceding the beginning of the plan year, rounded to the next highest 0.25 percent. The minimum interest rate is not less than the rate at which interest is credited under the Defined Benefit Program.

Additional Earnings Credit

Annual rate determined for the plan year by the Teachers' Retirement Board based on the actual earnings during the plan year but only to the extent the earnings are sufficient to credit the minimum interest rate and provide any additions to the gain and loss reserve deemed warranted by the board. The board adopted an additional earnings credit of 2.49 percent for the fiscal year ending June 30, 2006, and an additional earnings credit of 4.41 percent for the fiscal year ending June 30, 2007.

Additional Annuity Credit

Annual rate determined for the plan year by the Teachers' Retirement Board based on the actual earnings during the plan year, but only to the extent the earnings are sufficient to credit the minimum interest rate and provide any additions to the gain and loss reserve deemed warranted by the Board. The board adopted an additional annuity credit of 2.49 percent for the fiscal year ending June 30, 2006, and an additional annuity credit of 4.41 percent for the fiscal year ending June 30, 2007.

Normal Retirement

Eligibility Requirement

Receipt of a corresponding benefit under the Defined Benefit Program.

Benefit

The account balance at the benefit effective date subject to limits imposed under Internal Revenue Code section 415.

Form of Payment

The normal form of payment is a lump-sum distribution. Annuity options are available if the account balance is at least $3,500.

Early Retirement

Eligibility Requirement

Same as Normal Retirement.

Benefit and Form of Payment

Same as Normal Retirement.

Late Retirement

Benefit and Form of Payment

Same as Normal Retirement.

Contributions and earnings may continue to be credited to the account balance.

Deferred Retirement

Benefit

A member must receive a DBS benefit when the corresponding benefit is received under the Defined Benefit Program.

Disability Benefit

Eligibility Requirement

Receipt of a corresponding benefit under the DB Program.

Benefit

The account balance at the date the disability benefit becomes payable.

Form of Payment

Same as Normal Retirement. An annuity benefit is discontinued upon termination of the corresponding DB Program benefit.

Death Before Retirement

Eligibility Requirement

Deceased member has an account balance.

Benefit

The account balance at the date of death payable to the designated beneficiary.

Form of Payment

Similar to Normal Retirement.

Death After Retirement

Eligibility Requirement

The deceased member was receiving an annuity.

Benefit

According to the terms of the annuity elected by the member.

Termination from the Program

Eligibility Requirement

Termination of all CalSTRS-covered employment.

More than five years has elapsed since the most recent termination benefit, if any, has been paid.

Benefit and Form of Payment

Lump-sum distribution of the account balance as of the date of distribution.

Changes in Defined Benefit Supplement Program Provisions

There have been no program amendments that would affect an actuarial valuation of the Defined Benefit Supplement Program since the last CalSTRS annual financial report was issued. All program provisions were considered in the completion of the June 30, 2011 actuarial valuation.

All of the assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on February 2, 2012. Following are the assumptions adopted by the Teachers' Retirement Board for this program.

Table 1 Post-Retirement Mortality Table for Sample Ages

	Male	Female
Age	2011 CalSTRS Retired–M	2011 CalSTRS Retired–F
50	0.114%	0.073%
55	0.164	0.118
60	0.300	0.254
65	0.596	0.468
70	1.095	0.864
75	1.886	1.451
80	3.772	2.759
85	7.619	5.596
90	14.212	11.702
95	22.860	17.780

Table 2 Probabilities of Retirement for Sample Ages[1]

	Under 30 years		30 or more years	
Age	Male	Female	Male	Female
55	2.7%	4.5%	8.0%	9.0%
60	6.3	9.0	27.0	31.0
65	13.5	14.4	32.5	37.5
70	10.8	13.5	30.0	35.0
75	100.0	100.0	100.0	100.0

[1]Probabilities of retirement are adjusted for members with service between 25 and 30 years.

Table 3 Probabilities of Withdrawal from Active Service Before Age and Service Retirement for Sample Ages

Duration			
Male		Female	
1	13.0%	1	12.0%
2	9.0	2	8.5
3	6.4	3	6.4
4	4.6	4	4.6
5	3.9	5	3.9
10	1.8	10	1.8
15	0.9	15	0.9
20	0.5	20	0.5
25	0.3	25	0.3
30	0.2	30	0.2

Table 4 Assumption for Pay Increases Due to Promotions and Longevity for Sample Ages

(exclusive of the assumed general wage increase, which includes inflation)

	Entry Ages					
Duration	Under 25	25–29	30–34	35–39	40–44	45+
1	5.6%	5.3%	5.1%	4.8%	4.8%	3.5%
5	5.5	4.8	4.5	3.8	3.8	2.6
10	3.2	3.0	2.7	2.3	2.2	1.6
20	1.3	1.1	1.1	0.8	0.8	0.6
30	0.9	0.7	0.6	0.5	—	—
40	0.8	0.6	—	—	—	—

Table 5 | Economic Assumptions

Consumer Price Inflation	3.00%
Investment Yield	7.50
Wage Inflation	3.75
Interest on Member Accounts	7.50

Table 6 | Mortality Assumptions

	Retired Members[1]
Male	2011 CalSTRS Retired-M
Female	2011 CalSTRS Retired-F
	Active Members
Male	2011 CalSTRS Retired-M (-2 years)
Female	2011 CalSTRS Retired-F (-2 years)
	Beneficiaries[1]
Male	2011 CalSTRS Beneficiary-M
Female	2011 CalSTRS Beneficiary-F

[1]Future retirees and beneficiaries are valued with a 2-year age setback.

Table 7 | Termination from Disability Due to Death[1]

Male	
Age	
<70	2% at age 40 and under, graded to 3.2% at age 70
>70	RP 2000 male white collar +7 projected to 2025 at age 70 smoothed to +1 age 85 (select rates in first three years, regardless of age)
Female	
Age	
<70	1.5% at age 40 and less graded to 2.25% at age 70
>70	RP 2000 female white collar +6 projected to 2025 at age 70 smoothed to +2 at age 80 (select rates in first three years, regardless of age)

[1]Future disabled members are valued with a two-year age setback.

Table 8 | Disability Rates – Coverage B

(sample ages)

Coverage A		
Male	25	0.018%
	30	0.027
	40	0.072
	50	0.144
	55	0.189
Female	25	0.018%
	30	0.027
	40	0.081
	50	0.198
	55	0.252

Coverage B		
Male	25	0.010
	30	0.020
	35	0.030
	40	0.060
	45	0.100
	50	0.140
	55	0.245
Female	25	0.020
	30	0.020
	35	0.040
	40	0.070
	45	0.110
	50	0.185
	55	0.300

Table 9 | Schedule of Active Member Valuation Data

Date (as of June 30)	Number	Annual Payroll[1]	Annual Average Pay	% Increase in Average Pay
2005	449,773	$24,481,444,000	$54,431	1.768%
2006	453,131	25,524,878,188	56,330	3.489
2007	455,453	27,076,457,044	59,450	5.539
2008	460,961	28,574,701,507	61,989	4.270
2009	458,736	28,763,266,744	62,701	1.148
2010	441,326	27,340,840,174	61,952	(1.195)
2011	423,366	26,758,301,370	63,204	2.021

[1]Annual payroll includes limited term enhancement and extra service credit pay which is different from covered payroll in Schedule I of the Schedule of Funding Progress in the RSI.

Table 10 | Schedule of Retired Members and Beneficiaries Added to and Removed from Annuity Rolls

	Added to Rolls*		Removed from Rolls		Rolls - End of Year			
Date (as of June 30)	Number	Annual Benefits	Number	Annual Benefits	Number	Annual Benefits	% Increase	Average Annual Benefits
2005	2,951[1]	$4,765,404[1]	18[1]	$29,192[1]	5,477	$7,624,364	256%	$1,392
2006	4,067	7,984,912	363	588,458	9,302	15,183,661	99	1,632
2007	4,841	11,483,366	651	1,405,165	13,561	25,387,837	67	1,872
2008	5,404	14,810,571	1,113	3,006,699	17,900	37,308,946	47	2,084
2009	6,668	22,090,439	1,582	4,948,230	23,010	55,237,098	48	2,401
2010	8,796	31,707,577	1,816	6,612,662	30,048	80,571,112	45.9	2,681
2011	8,811	31,693,536	343	1,329,718	36,110	103,087,388	27.9	2,855
2012	8,257	32,650,936	2,386	11,666,909	42,055	124,148,784	20.4	2,952

*The Defined Benefit Supplement Program was established January 1, 2001. As of June 30, 2003, all members who had retired or became disabled had elected a lump-sum distribution.
[1]Revised in 2007

Table 11 | Solvency Test

Aggregate Accrued Liabilities for					Funding of Liabilities		
Valuation Date (as of June 30)	(1) Active Member Contributions on Deposit	(2) Future Benefits to Benefit Recipients	(3) Service Already Rendered by Active Members	Actuarial Value of Assets	(1)	(2)	(3)
2006	3,546,575,000	69,684,000	0	3,951,327,000	100.0	100.0	—
2007	4,498,170,000	123,876,000	0	5,381,585,000	100.0	100.0	—
2008	5,434,171,000	193,173,000	0	5,636,113,000	100.0	100.0	—
2009	6,316,154,000	283,161,000	0	5,145,981,000	81.5	—	—
2010	7,012,291,000	444,151,000	0	6,412,180,000	91.4	—	—
2011	7,196,652,000	577,115,000	0	8,054,962,000	100.0	100.0	—

Table 12 Analysis of Financial Experience

(gains and losses in unfunded actuarial obligation resulting from differences between assumed and actual experience)
(dollars in thousands)

	Actuarial Valuation as of June 30	
	2011 (2010)	2010 (2009)
Actuarial Obligation at June 30	$7,456,442	$6,599,315
Expected Changes:		
Contributions	410,820	796,743
Benefits Paid	(275,905)	(237,406)
Expected Earnings/Credits	545,483	533,121
Expected Actuarial Obligation at June 30	8,136,840	7,691,773
Expected Actuarial Value of Assets at June 30	7,016,869	6,125,806
Expected UAO at June 30	1,119,971	1,565,967
Actuarial (Gains) or Losses		
(Gain) on Actuarial Obligation	(363,073)	(235,331)
(Gain) on Assets	(1,038,093)	(286,374)
Total Actuarial (Gains) & Losses	(1,401,166)	(521,705)
Additional Earnings and Annuity Credits		
Additional Earnings Credit	0	0
Additional Annuity Credit	0	0
Total Additional Earnings and Annuity Credits	0	0
Unfunded Actuarial Obligation (Surplus) at June 30	$ (281,195)	$1,044,262
Funded Ratio	104%	86%

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November 20, 2012

Teachers' Retirement Board
California State Teachers' Retirement System

Re: Valuation of the Cash Balance Benefit Program

Dear Members of the Board:

The basic financial goal of the Cash Balance Benefit (CBB) Program of the California State Teachers' Retirement System (CalSTRS) is to fully fund the obligations based on member and employer contributions which are fixed, as a percentage of payroll, and remain level for each generation of active members. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

CalSTRS measures its funding status as the Funded Ratio of the actuarial value of valuation assets over the actuarial accrued liabilities. The funding status based on the past three actuarial valuations is shown below:

Valuation Date	Funded Ratio
June 30, 2009	80%
June 30, 2010	88%
June 30, 2011	105%

The market gain for the fiscal year ended in 2011 caused a significant increase in the Funded Ratio. As of June 30, 2011, the Market Value of Assets for the CBB Program exceeds the Actuarial Obligation.

The June 30, 2011 valuation results are based on the membership data and the asset information provided by CalSTRS. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes, although we have not audited the data at the source. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is found to be materially inaccurate or incomplete, our calculations will need to be revised.

Milliman did not prepare Schedules I and II, nor the summary of actuarial methods and assumptions in Schedule II of the Financial Section, nor the information included in this Actuarial Section of the 2012 Comprehensive Annual Financial Report. However, the actuarial information contained in Schedule I of the Financial Section and in this Actuarial Section was derived from our June 30, 2011 actuarial valuation report.

The valuation is based on our understanding of the current benefit provisions of the CBB Program and the actuarial assumptions which were last reviewed and adopted by the Board in February of 2012. Revised economic assumptions were also adopted at the February 2012 meeting. The assumptions will be reviewed in detail again in 2015.

The actuarial computations presented in the valuation report are for purposes of determining the recommended funding amounts for CalSTRS consistent with our understanding of their funding requirements and goals. The liabilities are determined by using the traditional unit credit funding method. The actuarial assets are equal to fair market value.

We believe the actuarial assumptions and methods are internally consistent, reasonable and meet the parameters of Governmental Accounting Standards Board Statement No. 25 for fulfilling financial accounting requirements. Nevertheless, the emerging costs will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions. Future actuarial measurements may differ significantly from the current measurements as presented in the valuation report due to many factors. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Our valuation report and this letter have been prepared exclusively for CalSTRS for a specific and limited purpose. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. It is a complex, technical analysis that assumes a high level of knowledge concerning CalSTRS operations, and uses CalSTRS data, which Milliman has not audited. No third party recipient of Milliman’s work product should rely upon Milliman’s work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

We certify that the June 30, 2011 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Respectfully submitted,

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Cash Balance Benefit Program

Summary of Actuarial Assumptions and Methods

CalSTRS, through its consulting actuary, will perform an experience study at least every four years to determine appropriate demographic and economic assumptions. These assumptions are then applied every year when the consulting actuary performs an actuarial valuation to monitor the funding status of the Cash Balance Benefit Program. The most recent actuarial valuation was completed as of June 30, 2011, and adopted by the Teachers' Retirement Board April 12, 2012. The following summary and tables were prepared by CalSTRS staff. All information is considered in the June 30, 2011 actuarial valuation.

The Cash Balance Benefit Program was established July 1, 1996. The most recent experience study of the program was completed June 30, 2011. The experience study was adopted by the Teachers' Retirement Board on February 2, 2012 and were used to complete the latest actuarial valuation. All of the assumptions used in the actuarial valuation was adopted by the Teachers' Retirement Board when the experience study was adopted. Following are the assumptions adopted by the Teachers' Retirement Board for this program.

- Investment return rate is 7.00 percent.
- Method used to value plan assets for actuarial valuation purposes: Fair market value.
- Assumption for general wage increase is 3.75 percent, of which 3.00 percent is due to inflation and 0.75 percent is due to expected gains in productivity.
- The actuarial cost method used by the program is the traditional unit credit cost method.
- The Cash Balance Benefit Program does not provide cost-of-living adjustments for benefit recipients.

Discussion of recent changes in:

The nature of the program—The Cash Balance Benefit Program was established July 1, 1996.

Program amendments include:

Effective January 1, 2006

- Reduced the one-year waiting period for the receipt of termination benefits to six months.
- Extended eligibility to members hired by a community college district to perform creditable service on a part-time or temporary basis (semester to semester), or for not more than 60 percent of the hours per week considered a regular full-time assignment.

Actuarial assumptions—The following assumptions were used to complete the valuation for this program.

Neither the economic nor the demographic assumptions for the actuarial valuation as of June 30, 2011, affected the actuarial surplus. Those assumptions for this program will have minimal impact under the traditional unit credit cost method or only have significance when participants elect to annuitize the account balance. Under the program, a participant must have at least $3,500 in his or her account to elect to annuitize the account balance.

The actuarial methods used for the program's actuarial valuation as of June 30, 2011, result in an actuarial surplus of $6,786,000.

CalSTRS contracts for many actuarial services. The current contractor, Milliman, has been CalSTRS actuary since January 15, 2000.

There are no other specific assumptions that have a material impact on valuation results for this program.

Independent Actuarial Review

Actuarial services for the California State Teachers' Retirement System are provided under contract by a qualified independent actuarial firm, with additional review provided by the actuarial staff. The current actuarial consultant was retained on January 15, 2000 and in 2006 and 2012, as a result of the competitive bid process.

Through the competitive bid process, the work of a prior actuary will be verified in a subsequent actuarial valuation performed by a new contract actuary. Should the same actuarial firm continue for a period of 10 years, provision is made for an independent review of that firm's work through an actuarial audit completed by another firm. These audit services are acquired using the competitive bid process.

An audit of the 2007 Actuarial Experience Analysis of the Cash Balance Benefit Program was performed by the firm The Segal Company. The result of the audit was reported to the Teachers' Retirement Board on September 8, 2011.

Summary of Cash Balance Benefit Program Provisions

The following tables and summary were prepared by CalSTRS staff. All information is considered in the June 30, 2011 actuarial valuation.

Membership

Eligibility Requirement

Membership if employed at less than 50 percent of a full-time position for a California school district, community college district or county office of education that has elected to offer the Cash Balance Benefit Program.

Participant

An eligible employee with creditable service subject to coverage who has contributions credited in the program or is receiving an annuity from the program.

Account Balance

Account Balance

Nominal accounts established for the purpose of determining benefits payable to the participant. Accounts are credited with contributions, minimum interest rate and additional earnings credits.

Contributions

Generally, participant contributions are 4 percent of salary and employer contributions are 4 percent of salary.

Rules for contribution rates may differ for participants covered by a collective bargaining agreement, but the sum of the participant and employer contributions must equal or exceed 8 percent of salary, and in no event can the employer contribution rate be less than 4 percent of salary.

The Teachers' Retirement Board may adjust employer contributions for a fixed number of years, but the adjustment shall not exceed 0.25 percent of salaries in any plan year.

Minimum Interest Rate

Annual rate determined for the plan year by the Teachers' Retirement Board in accordance with federal laws and regulations. The minimum interest rate is equal to the average of the yields on 30-year Treasury Notes for the 12 months ending in February preceding the beginning of the plan year, rounded to the next highest 0.25 percent.

Additional Earnings Credit

Annual rate determined for the plan year by the Teachers' Retirement Board based on the actual earnings during the plan year, but only to the extent the earnings are sufficient to credit the minimum interest rate and provide any additions to the gain and loss reserve deemed warranted by the Board. The board adopted an additional earnings credit of 1.18 percent for the fiscal year ending June 30, 2006, and an additional earnings credit of 4.69 percent for the fiscal year ending June 30, 2007.

Additional Annuity Credit

Annual rate determined for the plan year by the Teachers' Retirement Board based on the actual earnings during the plan year, but only to the extent the earnings are sufficient to credit the Minimum Interest Rate and provide any additions to the Gain and Loss Reserve deemed warranted by the Board. The board adopted an additional annuity credit of 1.18 percent for the fiscal year ending June 30, 2006, and an additional annuity credit of 4.69 percent for the fiscal year ending June 30, 2007.

Normal Retirement

Eligibility Requirement

Age 60.

Benefit

The account balance at the retirement date subject to limits imposed under Internal Revenue Code section 415.

Form of Payment

The normal form of payment is a lump-sum distribution. Annuity options are available if the sum of the employer and employee accounts equals or exceeds $3,500.

Early Retirement

Eligibility Requirement

Age 55.

Benefit and Form of Payment

Same as Normal Retirement.

Late Retirement

Benefit and Form of Payment

Same as Normal Retirement. Contributions and interest continue to be credited to the account balances until distributed.

Deferred Retirement

Benefit

A participant may cease active service, leave the accumulated account balance on deposit and later retire upon attaining the minimum age requirement.

Disability Benefit

Eligibility Requirement

Determination by the Teachers' Retirement Board that the participant has a total and permanent disability.

Benefit

The account balance at the date of disability. An annuity benefit is discontinued if the participant is re-employed before age 60 and performs service creditable under the program.

Form of Payment

Same as Normal Retirement.

Death Before Retirement

Eligibility Requirement

Deceased participant has an account balance.

Benefit

The account balance at the date of death payable to the designated beneficiary.

Form of Payment

Normal distribution is a lump-sum benefit. A participant's beneficiary may elect to receive the benefit in the form of a period-certain annuity if the sum of the balance of credits to the participant's employee and employer accounts equals or exceeds $3,500.

Death After Retirement

Eligibility Requirement

The deceased participant was receiving an annuity.

Benefit

According to the terms of the annuity elected by the participant.

Termination from the Program

Eligibility Requirement

More than five years has elapsed since the most recent termination benefit, if any, has been paid.

Benefit and Form of Payment

Lump-sum distribution of the account balance as of the date of distribution. The benefit is payable six months from the termination of creditable service.

Changes in Cash Balance Benefit Program Provisions

There have been no program amendments that would affect an actuarial valuation of the Cash Balance Benefit Program since the last CalSTRS annual financial report was issued. All program provisions were considered in the completion of the June 30, 2011 actuarial valuation.

All demographic assumptions used in the actuarial valuation were adopted by the Teachers' Retirement Board when the experience study was adopted on February 2, 2012. The following are the assumptions adopted by the Teachers' Retirement Board for this program.

Table 1 Post-Retirement Mortality Table for Sample Ages

	Male	Female
Age	2011 CalSTRS Retired–M	2011 CalSTRS Retired–F
50	0.114%	0.073%
55	0.164	0.118
60	0.300	0.254
65	0.596	0.468
70	1.095	0.864
75	1.886	1.451
80	3.772	2.759
85	7.619	5.596
90	14.212	11.702
95	22.860	17.780

Table 2 Probabilities of Retirement for Sample Ages[1]

	Under 30 Years		30 or more Years	
Age	Male	Female	Male	Female
55	2.7%	4.5%	8.0%	9.0%
60	6.3	9.0	27.0	31.0
65	13.5	14.4	32.5	37.5
70	10.8	13.5	30.0	35.0
75	100.0	100.0	100.0	100.0

[1]Probabilities of retirement are adjusted for members with service between 25 and 30 years.

Table 3 Probabilities of Withdrawal from Active Service Before Age and Service Retirement for Sample Ages

Duration			
Male		Female	
1	13.0%	1	12.0%
2	9.0	2	8.5
3	6.4	3	6.4
4	4.6	4	4.6
5	3.9	5	3.9
10	1.8	10	1.8
15	0.9	15	0.9
20	0.5	20	0.5
25	0.3	25	0.3
30	0.2	30	0.2
35	—	35	—
40	—	40	—

Table 4 Assumption for Pay Increases Due to Promotions and Longevity for Sample Ages

(exclusive of the assumed general wage increase, which includes inflation)

	Entry Ages					
Duration	Under 25	25–29	30–34	35–39	40–44	45+
1	5.6%	5.3%	5.1%	4.8%	4.8%	3.5%
5	5.5	4.8	4.5	3.8	3.8	2.6
10	3.2	3.0	2.7	2.3	2.2	1.6
20	1.3	1.1	1.1	0.8	0.8	0.6
30	0.9	0.7	0.6	0.5	—	—
40	0.8	0.6	—	—	—	—

Table 5 | Economic Assumptions

Consumer Price Inflation	3.00%
Investment Yield	7.00
Wage Inflation	3.75
Interest on Member Accounts	7.00

Table 6 | Mortality Assumptions

	Retired Members[1]
Male	2011 CalSTRS Retired-M
Female	2011 CalSTRS Retired-F
	Active Members
Male	2011 CalSTRS Retired-M (-2 years)
Female	2011 CalSTRS Retired-F (-2 years)
	Beneficiaries[1]
Male	2011 CalSTRS Beneficiary-M
Female	2011 CalSTRS Beneficiary-F

[1]Future retirees and beneficiaries are valued with a 2-year age setback.

Table 7 | Termination from Disability Due to Death[1]

Male	
Age	
<70	2% at age 40 and under, graded to 3.2% at age 70
>70	RP 2000 male white collar +7 projected to 2025 at age 70 smoothed to +1 age 85 (select rates in first three years, regardless of age)
Female	
Age	
<70	1.5% at age 40 and less graded to 2.25% at age 70
>70	RP 2000 female white collar +6 projected to 2025 at age 70 smoothed to +2 at age 80 (select rates in first three years, regardless of age)

[1]Future disabled members are valued with a two-year age setback.

Table 8 | Disability Rates – Coverage B
(sample ages)

Coverage A		
Male	25	0.018%
	30	0.027
	40	0.072
	50	0.144
	55	0.189
Female	25	0.018%
	30	0.027
	40	0.081
	50	0.198
	55	0.252

Coverage B		
Male	25	0.010
	30	0.020
	35	0.030
	40	0.060
	45	0.100
	50	0.140
	55	0.245
Female	25	0.020
	30	0.020
	35	0.040
	40	0.070
	45	0.110
	50	0.185
	55	0.300

Table 9 | Schedule of Active Participant Valuation Data

Date (as of June 30)	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
2005	9,385	$106,951,000	$11,396	8.0%
2006	9,869	122,316,000	12,394	8.8
2007	10,579	144,516,000	13,661	10.2
2008	11,627	181,104,000	15,576	14.0
2009	11,332	182,871,332	16,138	3.6
2010	10,378	163,248,119	15,730	(2.5)
2011	9,923	158,501,388	15,973	1.5

Table 10 | Schedule of Retired Participants and Beneficiaries Added to and Removed from Annuity Rolls

	Added to Rolls[1]		Removed from Rolls		Rolls–End of Year			
Date (as of June 30)	Number	Annual Benefits	Number	Annual Benefits	Number	Annual Benefits	% Increase in Annual Benefits	Average Annual Benefits
2005	4	$9,700	1	$803	6	$13,716	184.6%	$2,286
2006	5	10,708	0	0	11	24,423	78.1	2,220
2007	5	10,715	0	0	16	35,139	43.9	2,196
2008	7	21,650	0	0	23	56,788	61.6	2,469
2009	12	29,184	2	4,104	33	81,935	44.3	2,483
2010	17	51,207	5	23,079	45	110,061	34.3	2,446
2011	24	59,374	2	6,679	67	172,824	57.0	2,579
2012	41	127,850	5	15,274	103	285,400	65.1%	2,771

[1]The Cash Balance Benefit Program was established July 1, 1996. As of June 30, 2003, all participants who had retired or become disabled had elected a lump-sum distribution. No annuities had been paid.

Table 11 | Solvency Test

Aggregate Accrued Liabilities for					Funding of Liabilities		
Valuation Date (as of June 30)	(1) Active Member Contributions on Deposit	(2) Future Benefit to Benefit Recipients	(3) Service Already Rendered by Active Members	Actuarial Value of Assets	(1)	(2)	(3)
2006	62,749,487	140,000	0	68,797,000	100.0	100.0	—
2007	79,691,000	191,000	0	93,182,000	100.0	100.0	—
2008	97,802,000	229,000	0	98,892,000	100.0	100.0	
2009	114,338,000	354,000	0	91,793,000	80.2	—	—
2010	129,065,000	509,000	0	114,418,000	88.7	—	—
2011	143,695,000	767,000	0	151,248,000	100.0	100.0	—

Table 12 | Analysis of Financial Experience

(gains and losses in unfunded actuarial obligation resulting from differences between assumed and actual experience)
(dollars in thousands)

	Actuarial Valuation as of June 30	
	2010 (2009)	2010 (2009)
Actuarial Obligation at June 30:	$129,574	$114,680
Expected Changes:		
Contributions	12,889	13,199
Benefits Paid	(3,768)	(3,110)
Expected Earnings/Credits	9,725	9,279
Expected Actuarial Obligation at June 30:	148,420	134,048
Expected Actuarial Value of Assets at June 30:	132,165	109,387
Expected UAO at June 30	16,255	24,661
Actuarial (Gains) or Losses		
(Gain) on Actuarial Obligation	(3,958)	(4,474)
(Gain) on Assets	(19,083)	(5,031)
Total Actuarial (Gains) & Losses	(23,041)	(9,505)
Additional Earnings and Annuity Credits		
Additional Earnings Credit	0	0
Additional Annuity Credit	0	0
Total Additional Earnings and Annuity Credits	0	0
Unfunded Actuarial Obligation (Surplus) at June 30	$ (6,786)	$15,156
Funded Ratio	105%	88%

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November 20, 2012

Teachers' Retirement Board
California State Teachers' Retirement System

Re: GASB 43 Reporting for the Medicare Premium Payment Program

Dear Members of the Board:

The basic financial goal of the Medicare Premium Payment (MPP) Program of the California State Teachers' Retirement System (CalSTRS) is to maintain sufficient resources to fully fund the obligations. Actuarial valuations used for GASB 43 reporting are performed every two years and measure the progress toward this goal, as well as test the adequacy of the contribution rates. The most recent valuation was as of June 30, 2010.

The MPP Program is essentially funded on a pay-as-you-go basis with a portion of contributions to the DB Program diverted to the Teachers' Health Benefit Fund to make MPP Program payments. As of June 30, 2010, $601 million of future employer contributions to the DB Program has been allocated to pay the MPPP benefits; however, this amount is not included for GASB 43 reporting. This gives the appearance that the MPP Program is significantly underfunded in the GASB 43 results. However, based on the commitment to transfer assets from the DB Program to fund the MPP Program, it is our opinion that the MPP Program continues in sound financial condition as of June 30, 2010.

The June 30, 2010 valuation results are based on the membership data and the asset information provided by CalSTRS. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes, although we have not audited the data at the source. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is found to be materially inaccurate or incomplete, our calculations will need to be revised.

Milliman did not prepare Schedules I and II, nor the summary of actuarial methods and assumptions in Schedule II of the Financial Section, nor the information included in this Actuarial Section of the 2012 Comprehensive Annual Financial Report. However, the actuarial information contained in Schedule I of the Financial Section and in this Actuarial Section was derived from our June 30, 2010 actuarial valuation report.

The valuation is based on our understanding of the current benefit provisions of the MPP Program and the actuarial assumptions which were last reviewed and adopted by the Board at the June 2009 meeting. Revised economic assumptions were adopted at the December 2010 meeting.

We believe the actuarial assumptions and methods are internally consistent, reasonable and meet the parameters of Governmental Accounting Standards Board Statement No. 43 for fulfilling financial accounting requirements. Nevertheless, the emerging costs will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions. Future actuarial measurements may differ significantly from the current measurements as presented in the valuation report due to many factors. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

We certify that the June 30, 2010 valuation was performed in accordance with the Actuarial Standards Board (ASB) standards of practice and by qualified actuaries. We are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Our valuation report and this letter have been prepared exclusively for CalSTRS for a specific and limited purpose. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. It is a complex, technical analysis that assumes a high level of knowledge concerning CalSTRS operations, and uses CalSTRS data, which Milliman has not audited. No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

In conclusion, the results presented in this report satisfy GASB 43 reporting purposes. Based on the current actuarial assumptions, the current assets of the MPP Program fund 0.1% of the accrued liabilities. It should be noted that these calculations do not include $601 million of future employer contributions to the DB Program that has been allocated to pay the MPPP benefits.

Respectfully submitted,

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Medicare Premium Payment Program

Summary of Actuarial Assumptions and Methods

CalSTRS, through its consulting actuary, will perform an experience study at least every four years to determine appropriate demographic and economic assumptions. These assumptions are then applied every two years when the consulting actuary produces GASB 43 reporting information for the CalSTRS Medicare Premium Payment Program. The GASB 43 reporting information was completed as of June 30, 2010, and adopted by the Teachers' Retirement Board April 8, 2011. The following tables and summary were prepared by CalSTRS staff.

The Medicare Premium Payment Program was established January 1, 2001. Assumptions specific to the Medicare Premium Payment Program were adopted by the Teachers' Retirement Board on June 5, 2009. The economic and demographic assumptions were based on those adopted for the Defined Benefit Program by the Teachers' Retirement Board on April 3, 2008, some economic assumptions were adopted at the December 2, 2010 Board meeting. The economic and demographic assumptions were used for GASB 43 reporting information. The Defined Benefit Program and the Medicare Premium Payment Program share the same population, so it is reasonable to use most of the same assumptions for both programs. Following are the assumptions adopted by the Teachers' Retirement Board for GASB 43 reporting:

- GASB 43 discount rate is 4.00 percent.
- Method used to value plan assets for GASB 43 reporting purposes: market value of assets held in the Health Benefit Trust Fund.
- Assumption for the price increase is 3.00 percent.
- The actuarial cost method used for GASB 43 reporting purposes is entry age normal.

Discussion of recent changes in:

The nature of the program—The Medicare Premium Payment Program is a relatively new program, established January 1, 2001. All provisions of the program as of June 2010 were considered when producing GASB 43 reporting information.

Actuarial Assumptions—There have been several changes to the assumptions since the June 30, 2010 valuation. The most significant changes were the reductions in the probabilities of enrollment in the MPP Program and the reduced investment return assumption. The following assumptions were used to complete the valuation for this program.

Actuarial Methods

Actuarial Cost Method
Level Dollar Entry Age Normal

Asset Valuation Method
Fair Market Value in the Health Benefit Trust Fund

The actuarial methods used for GASB 43 reporting purposes as of June 30, 2010, result in an unfunded actuarial accrued liability of $904.4 million.

CalSTRS contracts for many actuarial services. The current contractor, Milliman, has been CalSTRS actuary since the program's inception.

There are no other specific assumptions that have a material impact on GASB 43 reporting information.

Independent Actuarial Review

Actuarial services for the California State Teachers' Retirement System are provided under contract by a qualified independent actuarial firm, with additional review provided by the staff actuary.

The work performed for CalSTRS by the independent actuarial firm may be reviewed by the Bureau of State Audits at the discretion of the Teachers' Retirement Board. Also, through the competitive bid process, the work of a prior actuary will be compared for reasonableness in subsequent work performed by a new contract actuary. Should the same actuarial firm continue for a period of 10 years, provision is made for an independent audit completed by another firm. These audit services are acquired using the competitive bid process.

An audit of the 2007 Actuarial Experience Analysis of the Medicare Premium Payment Program was performed by the firm, The Segal Company. The result of the audit was reported to the Teachers' Retirement Board on September 8, 2011.

Summary of Medicare Premium Payment Program Provisions

The following tables and summary were prepared by CalSTRS staff. All information is considered for GASB 43 reporting purposes as of June 30, 2010.

Membership

Eligibility requirement – Part A

Member—satisfies either:

1) Retired or disabled prior to January 1, 2001; hired prior to April 1, 1986; age 65 or above; enrolled in Medicare Part A and Part B; and not eligible for Part A without premium payment.

- or -

2) Meet all above requirements, except retired or disabled before July 1, 2007; district completed a Medicare Division election prior to retirement; and active member less than 58 years of age at the time of the election.

Spouse eligibility

Spouses of members are not eligible to participate in the program.

Eligibility requirement—Part B

Only those currently enrolled are eligible.

Benefits Paid

Part A – Part A premium ($450 per month in 2011)

Part B – Part B penalty. Based on Part B premium ($115.40 per month in 2011). Small group of high earners will have higher premiums, up to $369.10 in 2011.

Changes in the Medicare Premium Payment Program Provisions

The following amendments were considered for June 30, 2010 GASB 43 reporting:

Effective April 5, 2007

- Medicare Premium Payment Program was extended for a five-year period to include members retiring or becoming disabled prior to July 1, 2012.

Demographic assumptions used for GASB 43 reporting were adopted by the Teachers' Retirement Board on April 3, 2008, some new economic assumptions were adopted at the December 2, 2010 Board meeting. Additional assumptions specific to the MPP Program were adopted at the board's June 5, 2009, meeting. Following are the assumptions adopted by the Teachers' Retirement Board for this program.

Table 1 Post-Retirement Mortality Table for Sample Ages

	Male	Female
Age	2007 CalSTRS Retired–M	2007 CalSTRS Retired–F
50	0.151%	0.112%
55	0.214	0.168
60	0.362	0.272
65	0.675	0.506
70	1.274	0.971
75	2.384	1.674
80	4.355	3.257
85	7.958	6.164
90	14.262	11.915
95	23.366	18.280

Table 2 Probabilities of Retirement for Sample Ages[1]

	Under 30 Years		30 or more Years	
Age	Male	Female	Male	Female
55	2.7%	4.5%	8.0%	9.0%
60	6.3	9.0	27.0	31.0
65	13.5	14.4	30.0	32.0
70	100.0	100.0	100.0	100.0

[1]Probabilities of retirement are adjusted for members with service between 25 and 30 years.

Table 3 Probabilities of Withdrawal from Active Service Before Age and Service Retirement for Sample Age[1]

	Entry Ages					
Duration	Under 25	25–29	30–34	35–39	40–44	45+
Male						
1	13.0%	12.5%	13.0%	13.0%	13.0%	14.0%
2	9.0	7.7	9.0	9.0	9.0	10.0
3	6.0	6.0	6.5	6.5	6.5	7.0
4	4.4	4.8	5.0	5.0	5.0	4.0
5	3.9	3.6	3.0	3.0	3.0	3.0
10	2.0	2.0	2.0	2.0	2.0	—
15	1.1	1.1	1.1	1.1	—	—
20	0.6	0.6	0.6	—	—	—
25	0.4	0.5	—	—	—	—
Female						
1	10.0%	11.0%	11.0%	11.0%	10.5%	10.5%
2	7.2	8.5	8.5	7.5	7.0	7.0
3	6.3	7.0	6.5	6.0	5.5	5.5
4	5.8	6.0	5.5	4.5	4.0	3.0
5	5.5	5.3	4.5	3.8	3.3	2.5
10	2.3	1.8	1.6	1.3	1.3	—
15	1.0	0.9	0.9	0.9	—	—
20	0.5	0.5	0.5	—	—	—
25	0.3	0.4	—	—	—	—

[1]Probabilities of retirement are adjusted for members with service between 25 and 30 years.

Table 4 | Probability of Refund

	Entry Age – Male				
Year	Under 25	25–29	30–34	35–39	40 and up
Under 5	100%	100%	100%	100%	100%
10	46	46	38	36	36
15	38	38	31	21	—
20	28	31	15	—	—
25	15	15	—	—	—
	Entry Age – Female				
Year	Under 25	25–29	30–34	35–39	40 and up
Under 5	100%	100%	100%	100%	100%
10	34	32	32	29	29
15	27	24	24	24	—
20	19	14	14	—	—
25	10	10	—	—	—

Table 5 | Economic Assumptions

Investment Yield	
GASB Reporting	4.00%
Medical Inflation	
Part A Premiums	5.00%
Part B Premiums	5.00%
Price Inflation	**3.00%**

Table 6 | Mortality Assumptions

	Retired Members[1]
Male	2007 CalSTRS Retired-M
Female	2007 CalSTRS Retired-F
	Active Members
Male	2007 CalSTRS Retired-M (-2 years)
Female	2007 CalSTRS Retired-F (-2 years)
	Beneficiaries[1]
Male	2007 CalSTRS Beneficiary-M
Female	2007 CalSTRS Beneficiary-F

[1]Future retirees and beneficiaries are valued with a 2-year age setback.

Table 7 | Termination from Disability Due to Death[1]

Male	RP 2000-M (Min. 2.5% with select rates in first 3 years)
Female	RP 2000-F (Min. 2.0% with select rates in first 3 years)

[1]Future disabled members are valued with a two-year age setback.

Table 8 | Service Retirement
(sample ages)[1]

	Age	Under 30 years	30 or More Years
Male	**55**	**2.7%**	**8.0%**
	60	6.3	27.0
	65	13.5	30.0
	70	100.0	100.0
Female	**55**	**4.5%**	**9.0%**
	60	9.0	31.0
	65	14.4	32.0
	70	100.0	100.0

[1]Probabilities of retirement are adjusted for members with service between 25 and 30 years.

Table 9 Disability Rates
(sample ages)

Coverage A		
Male	25	0.021%
	30	0.030
	40	0.081
	50	0.159
	55	0.210
Female	25	0.021%
	30	0.030
	40	0.090
	50	0.220
	55	0.280

Coverage B					
	Entry Age Under 40	Entry Age 40 and Up		Entry Age Under 40	Entry Age 40 and Up
Male			**Female**		
25	0.012%	—	25	0.021%	—
30	0.018	—	30	0.021	—
35	0.036	—	35	0.042	—
40	0.090	—	40	0.078	—
45	0.123	0.118%	45	0.126	0.139%
50	0.171	0.202	50	0.219	0.252
55	0.252	0.312	55	0.318	0.367

Table 10 Schedule of Medicare Part A Enrollment Rates

Assumption	Best Estimate	
	Male	Female
% of Actives and Under 65 Retirees Enrolling (Retired On or After 2001)	3.50%	3.50%
% of Under 65 Retirees Enrolling (Retired Before 2001)	4.50	4.50
% of Over 65 Retirees Enrolling (For Those Not Currently Enrolled) at Age:		
65	2.50	2.50
66	1.00	1.00
67	0.25	0.25
68	0.15	0.15
69	0.10	0.10
70–74	0.05	0.05
75 & above	0.05	0.05

Table 11 | Schedule of Retired Members Added to and Removed from Medicare Part A Premium Rolls

	Added to Rolls[1]		Removed from Rolls		Rolls-End of Year			
Date (as of June 30)	Number	Annual Benefits[2]	Number	Annual Benefits[2]	Number	Annual Benefits[2]	% Increase in Annual Benefits	Average Annual Benefits
2005	319	$905	195	$514	6,120	$25,977	7.7%	$4,245
2006	405	1,193	219	613	6,188	27,326	5.2	4,416
2007	391	1,274	215	630	6,268	29,618	8.4	4,725
2008	389	1,296	213	608	6,300	31,328	5.8	4,973
2009	399	1,489	208	604	6,431	35,814[3]	14.3	5,569
2010	347	1,215	220	660	6,475	34,015	–5.0	5,253
2011	537	2,202	231	695	6,709	34,677	1.9	5,169
2012	359	1,177	218	634	6,742	33,708	–2.8	5,000

[1]The Medicare Premium Payment Program was established July 1, 2001.

[2]Dollars in thousands.

[3]This does not include the $8.04 million credit adjustments and deletions. If including the credit adjustments and deletions, the Total Annual Benefits would be $28.3 million, the percentage increase in annual benefits would be -9.6% and the average annual benefit would be $4,402.

Table 12 | Solvency Test

Aggregate Accrued Liabilities for (in millions)					Funding of Liabilities		
Valuation Date (as of June 30)	(1) Active Member Contributions on Deposit	(2) Future Benefit to Benefit Recipients	(3) Service Already Rendered by Active Members	Actuarial Value of Assets	(1)	(2)	(3)
2006	$0	$796.5	$0	$2.7	100%	0.3%	0%
2008	0	976.3	0	4.2	100	0.4	0
2010	0	905.0	0	0.6	100	0.1	0

[1]GASB 43 reporting information was determined for the first time as of June 30, 2006.

Table 13 | ## Analysis of Financial Experience

(gains and losses in unfunded actuarial obligation resulting from differences between assumed and actual experience)
(dollars in millions)

	GASB 43 reporting as of June 30	
	2010 (2009)	2008 (2007)
Actuarial Obligation at June 30:		
Expected Changes:		
Eligibility Extended	not calculated	not calculated
Benefits Paid	($36.0)	($33.0)
Interest	not calculated	not calculated
Expected Actuarial Obligation at June 30:	not calculated	not calculated
Expected Actuarial Value of Assets at June 30:	not calculated	not calculated
Expected UAO at June 30	not calculated	not calculated
Actuarial (Gains) or Losses		
(Gain) on Medical Trend Assumption	not calculated	not calculated
(Gain) on Premium/Penalty	not calculated	not calculated
(Gain) on Part B Premium for higher earners	not calculated	not calculated
(Gain) other sources	not calculated	not calculated
Total Actuarial Gains & Losses	not calculated	not calculated
Unfunded Actuarial Obligation (Surplus) at June 30	$904.4	$972.1
Funded Ratio	0.1%	0.4%

STATISTICAL

The Statistical section presents additional detailed information that assists users in using the basic financial statements, notes to basic financial statements and required supplementary information to assess the economic condition of the California State Teachers' Retirement System. The section provides information for the Defined Benefit, Defined Benefit Supplement, Cash Balance Benefit, Pension2 and Medicare Premium Payment programs. The remaining funds are deemed immaterial.

The Replacement Benefit schedules presented on the following pages include information on financial trends and operating information. The financial trend schedules assist users in understanding and assessing how the system's financial position has changed over time and include:

- Changes in Net Assets
- Benefit and Refund Deductions from Net Assets by Type

The operating information schedules provide data about the system's operations and resources to assist users in understanding CalSTRS benefits and services, and include:

- Members and Benefit Recipient Statistics
- Participating Employers Statistics

The information in this section was derived from the CalSTRS pension administration system, START, except where noted.

Notes:

Supplemental statistical tables are available upon request by calling CalSTRS at 800-228-5453.

The assets of the Defined Benefit, Defined Benefit Supplement and Cash Balance Benefit programs comprise the Teachers' Retirement Fund, which is part of the State Teachers' Retirement Plan (STRP) as reported on the statement of changes in fiduciary net assets. The STRP also includes the Replacement Benefit Program (RBP). The RBP is included in the Defined Benefit Program in this section.

Defined Benefit Program

Table 1 | **Changes in Net Assets[1]**
(dollars in millions)

Fiscal Year Ending June 30	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Additions										
Member Contributions	$2,229.2	$2,007.6	$1,673.5	$1,792.3	$1,820.1	$1,690.5	$1,626.1	$1,748.3	$1,640.7	$1,557.9
Employer Contributions	2,174.3	2,234.8	2,134.3	2,335.5	2,328.2	2,168.4	2,094.5	2,004.6	1,918.3	1,892.1
State of California/Federal Government[2]	1,302.5	1,193.3	1,221.6	1,140.4	1,629.6	1,084.4	1,018.7	1,218.6	548.7	1,015.0
Investment Income	932.4	28,488.5	14,363.8	(39,215.5)	(9,260.3)	29,027.7	15,732.6	13,897.6	16,354.3	3,622.9
Other Income	4.1	6.5	7.7	7.5	213.1	0.5	0.1	1.4	(0.3)	—
Total Additions	**$6,642.5**	**$33,930.7**	**$19,400.9**	**($33,939.8)**	**($3,269.3)**	**$33,971.5**	**$20,472.0**	**$18,870.5**	**$20,461.7**	**$8,087.9**
Deductions										
Benefit Payments to Members	$10,215.5	$9,602.1	$8,859.6	$8,098.5	$7,451.2	$6,839.5	$6,334.4	$5,835.9	$5,279.5	$4,715.6
Refunds of Member Contributions	82.5	88.8	85.4	74.9	83.5	87.5	82.9	79.1	79.2	78.7
Purchasing Power Benefits	234.6	237.6	272.6	348.1	229.8	230.3	215.3	221.3	223.5	233.8
Administration Expenses	131.4	104.2	134.0	109.7	106.4	103.4	93.6	92.9	93.5	72.1
Other Expense	0.0	0.0	0.0	0.0	(0.2)	0.0	0.0	10.1	1.7	0.1
Total Deductions	**$10,664.0**	**$10,032.7**	**$9,351.6**	**$8,631.2**	**$7,870.7**	**$7,260.7**	**$6,726.2**	**$6,239.3**	**$5,677.4**	**$5,100.3**
Change in Net Assets	**($4,021.5)**	**$23,898.0**	**$10,049.3**	**($42,571.0)**	**($11,140.0)**	**$26,710.8**	**$13,745.8**	**$12,631.2**	**$14,784.3**	**$2,987.6**

There may be immaterial rounding differences between the figures presented in this table and in the Statement of Changes in Fiduciary Net Assets.

[1]Includes the Replacement Benefit Program starting in 2009, the year the Replacement Benefit Program began being reported as part of the State Teachers' Retirement Plan.

[2]Includes Elder Full Funding, SBMA contributions and school lands revenue.

Table 2 | Benefit and Refund Deductions from Net Assets by Type[1]

(dollars in millions)

Fiscal Year Ending June 30	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Type of Benefit										
Age & Service Benefits										
Retired Members	$9,493.6	$8,931.6	$8,149.2	$7,461.5	$6,834.5	$6,290.7	$5,817.7	$5,346.8	$4,856.7	$4,284.7
Survivors	501.9	463.6	502.7	443.0	426.2	376.7	351.9	329.8	233.8	247.6
Death	25.1	29.2	35.0	32.3	35.0	26.5	27.6	34.2	74.0	78.1
Purchasing Power Benefits	234.6	237.6	272.6	348.1	229.8	230.3	215.3	221.3	223.5	233.8
Disability Benefits										
Retired Members	194.9	177.7	172.7	161.7	155.6	145.6	137.2	125.1	115.0	105.4
Survivors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Benefits	**$10,450.1**	**$9,839.7**	**$9,132.2**	**$8,446.6**	**$7,681.1**	**$7,069.8**	**$6,549.6**	**$6,057.2**	**$5,502.9**	**$4,949.6**
Type of Refund										
Separation	$82.5	$88.8	$85.4	$74.9	$83.5	$87.5	$82.9	$79.1	$79.2	$78.7
Total Refunds	**$82.5**	**$88.8**	**$85.4**	**$74.9**	**$83.5**	**$87.5**	**$82.9**	**$79.1**	**$79.2**	**$78.7**

There may be immaterial rounding differences between the figures presented in this table and in the Statement of Changes in Fiduciary Net Assets.

[1]Includes the Replacement Benefit Program starting in 2009, the year the Replacement Benefit Program began being reported as part of the State Teachers' Retirement Plan.

Table 3 | Active Member Characteristics

Fiscal Year Ending June 30	Count	Average Earnable Salary[1]	Average Age	Average Service Credit	Average Service Projected to Age 60
2001	428,741	51,478	44.3	10.7	26.4
2002	442,208	53,113	44.3	10.5	26.2
2003	448,478	54,065	44.3	10.5	26.2
2004	444,680	54,978	44.5	10.7	26.2
2005	450,282	55,900	44.5	10.7	26.2
2006	453,365	57,698	44.6	10.8	26.1
2007	455,693	61,097	44.7	10.8	26.1
2008	461,378	63,281	44.7	10.8	26.2
2009	459,009	64,044	44.8	11.0	26.2
2010	441,544	64,156	45.1	11.3	26.3
2011	429,600	64,069	45.3	11.7	26.3
2012	421,499	64,743	45.5	11.9	26.5

[1]Average salary that would be paid if members worked full-time basis.

Table 4 | Members Retired for Service During Fiscal Year 2011–12, Classified by Unmodified Allowance[1]

Monthly Unmodified Allowance[2]	Count	Average Age at Retirement[3]	Average Service Credit[3]	Average Final Compensation[3]	Average Allowance Payable[3]
Less than $500	738	62.7	5.964	3,157	323
500–1000	1,155	62.5	9.220	4,205	725
1000–1500	908	61.8	12.498	5,199	1,195
1500–2000	974	61.8	15.591	5,756	1,690
2000–2500	1,010	62.5	18.035	6,158	2,174
2500–3000	920	62.4	20.824	6,361	2,638
3000–3500	941	62.6	22.903	6,689	3,130
3500–4000	870	62.7	25.192	6,850	3,607
4000–4500	884	63.1	26.993	7,063	4,086
4500–5000	813	62.4	29.330	7,198	4,572
5000–5500	766	62.4	31.084	7,302	5,053
5500–6000	761	62.3	32.659	7,414	5,494
6000 & Greater	2,879	62.7	36.163	8,917	7,421
Total	**13,619**	**62.5**	**23.710**	**6,670**	**3,764**

[1]Does not include formerly disabled members

[2]As of the June 30, 2004 population report the longevity bonus is included in the unmodified allowance

[3]Overall averages

Table 5 Members Retired for Service During Fiscal Year 2011–12[1], Classifed by Age and Joint & Survivor Option Elected[2]

			Option types							
Age	Total	Unmodified	2	3	4	5	6	7	8	9
Under 55	22	13					5	4		
55	538	351					111	39	5	32
56	397	266					72	33	1	25
57	460	288					84	44	2	42
58	604	347					114	74	7	62
59	891	474	1				187	130	4	95
60	1,315	669	8				273	209	10	146
61	1,808	872	33	3	1		402	271	35	191
62	1,728	888	39	3	1	1	383	224	28	161
63	1,440	825	26	4	1		261	180	21	122
64	1,055	610	20				194	127	16	88
65	1,036	609	12	1			184	135	17	78
66	582	355	10	1			97	64	9	46
67	464	283	10				85	43	4	39
68	312	205	6	3			40	30	5	23
69	285	185	4				46	26	6	18
70	196	143	4				19	16	1	13
71	114	79	2				21	7		5
72	92	63	3				12	8	1	5
73	65	52					4	3	2	4
74	53	33	2				10	5	1	2
75 and over	162	112	5	1			22	15	5	2
Age Unknown										
Total	**13,619**	**7,722**	**185**	**16**	**3**	**1**	**2,626**	**1,687**	**180**	**1,199**
% of Total	100.0%	57%	1%	0%	0%	0%	19%	12%	1%	9%

[1]Does not include formerly disabled members

[2]Option Elected:

Option 2 - Beneficiary receives 100% of member's modified allowance

Option 3 - Beneficiary receives 50% of member's modified allowance

Option 4 - Beneficiary receives 2/3 of member's modified allowance

Option 5 - Survivors receives 50% of member's modified allowance, upon death of either member of beneficiary

Option 6 - Beneficiary receives 100% of member's modified allowance. If beneficiary pre-deceases the member the allowance pops up to the unmodified amount

Option 7 - Beneficiary receives 50% of member's modified allowance. If beneficiary pre-deceases the member the allowance pops up to the unmodified amount

Option 8 - Compound option that allows the member to provide for more than one beneficiary

Option 9 - Beneficiary receives 75% of member's modified allowance. If beneficiary pre-deceases the member the allowance pops up to the unmodified amount

Table 6 | Characteristics of Members Going on Disability

Fiscal Year Ending June 30	Count	Average Disability Allowance Payable	Average Service Credit	Average Final Compensation	Average Age at Disability
2003	614	$2,385	14.894	4,849	53.0
2004	580	2,409	14.453	4,899	53.3
2005	538	2,488	14.016	5,103	53.5
2006	402	2,522	14.061	5,134	54.5
2007	501	2,579	13.959	5,281	54.7
2008	510	2,660	14.074	5,478	54.5
2009	511	2,728	13.934	5,567	53.8
2010	498	2,825	14.524	5,827	55.3
2011	504	2,784	14.297	5,781	55.0
2012	488	2,825	14.321	5,823	55.4

Table 7 | Total Number of Benefit Recipients by Type of Benefit

Fiscal Year Ending June 30	Service Retirement	Disability Benefits	Benefits for Survivors	Total Benefit Recipients
2003	159,172	6,949	15,747	181,868[1]
2004	169,022	7,311	16,912	193,245
2005	176,008	7,571	17,662	201,241
2006	181,833	7,683	18,330	207,846
2007	188,659	7,915	19,067	215,641
2008	195,960	8,170	19,838	223,968
2009	203,649	8,380	20,588	232,617
2010	213,952	8,581	21,263	243,796
2011	222,222	8,813	22,006	253,041
2012	230,278	9,036	22,724	262,038

[1]Disability and survivor counts revised in 2003.

Table 8 | Members Retired for Service Characteristics[1] by Year of Retirement

Effective Date of Retirement by Service Credit	Number of Retirements	Average Service Credit	Average Unmodified Allowance	Average Final Compensation	Average Age at Retirement
7/1/2002 thru 6/30/2003[2]					
0–5	103	2.4	$206	—	—
5–10	674	7.2	525	—	—
10–15	749	12.6	1,149	—	—
15–20	1,074	17.5	1,821	—	—
20–25	1,063	22.6	2,494	—	—
25–30	1,212	27.1	3,372	—	—
30–35	3,384	32.7	4,640	—	—
35–40	2,444	37.2	5,855	—	—
40 & over	486	42.3	7,114	—	—
Total	**11,189**	**27.9**	**$3,879**	**$5,807**	**61.2**
7/1/2003 thru 6/30/2004[2]					
0–5	116	2.4	$242	—	—
5–10	883	7.2	559	—	—
10–15	944	12.6	1,178	—	—
15–20	1,277	17.6	1,864	—	—
20–25	1,200	22.5	2,614	—	—
25–30	1,393	27.1	3,416	—	—
30–35	3,495	32.6	4,761	—	—
35–40	2,477	37.2	5,919	—	—
40 & over	516	42.1	7,255	—	—
Total	**12,301**	**27.1**	**$3,817**	**$5,891**	**61.2**
7/1/2004 thru 6/30/2005[2]					
0–5	122	2.5	$268	—	—
5–10	1,008	7.2	591	—	—
10–15	897	12.6	1,170	—	—
15–20	1,311	17.5	1,906	—	—
20–25	1,286	22.3	2,579	—	—
25–30	1,217	27.0	3,475	—	—
30–35	3,208	32.5	4,847	—	—
35–40	2,162	37.2	6,100	—	—
40 & over	413	42.0	7,422	—	—
Total	**11,624**	**26.3**	**$3,744**	**$5,944**	**61.7**

[1]Does not include formerly disabled members

[2]The Average Member-Only Benefit for this fiscal year includes the Longevity Bonus.

Table 8 | Members Retired for Service Characteristics[1] by Year of Retirement (continued)

Effective Date of Retirement by Service Credit	Number of Retirements	Average Service Credit	Average Unmodified Allowance	Average Final Compensation	Average Age at Retirement
7/1/2005 thru 6/30/2006[2]					
0–5	115	2.4	$281	$5,724	61.2
5–10	980	7.3	607	4,056	61.7
10–15	919	12.5	1,197	4,756	61.2
15–20	1,235	17.6	1,935	5,387	61.2
20–25	1,198	22.2	2,631	5,758	61.3
25–30	1,143	27.0	3,678	6,423	61.9
30–35	2,843	32.5	4,982	6,685	60.4
35–40	2,091	37.2	6,279	7,024	61.2
40 & over	353	42.2	7,575	7,163	65.1
Total	**10,877**	**26.0**	**$3,810**	**$6,079**	**61.2**
7/1/2006 thru 6/30/2007[2]					
0–5	105	2.5	$253	$5,127	61.0
5–10	1,080	7.3	620	4,075	62.0
10–15	1,019	12.4	1,239	4,874	61.4
15–20	1,311	17.5	2,039	5,625	61.5
20–25	1,248	22.2	2,802	5,987	61.8
25–30	1,249	27.1	3,847	6,678	62.0
30–35	3,078	32.5	5,312	7,087	60.6
35–40	2,259	37.3	6,680	7,434	61.4
40 & over	413	42.2	8,151	7,830	65.0
Total	**11,762**	**26.1**	**$4,059**	**$6,371**	**61.5**
7/1/2007 thru 6/30/2008[2]					
0–5	129	2.6	$286	$5,393	61.5
5–10	1,038	7.3	643	4,213	62.2
10–15	1,093	12.4	1,307	5,090	61.6
15–20	1,324	17.7	2,148	5,822	61.6
20–25	1,463	22.2	2,902	6,203	61.7
25–30	1,408	27.0	4,000	6,921	62.1
30–35	3,203	32.5	5,526	7,315	60.9
35–40	2,443	37.3	6,908	7,685	61.4
40 & over	467	42.0	8,242	7,990	64.6
Total	**12,568**	**26.3**	**$4,239**	**$6,612**	**61.6**

[1]Does not include formerly disabled members

[2]The Average Member-Only Benefit for this fiscal year includes the Longevity Bonus.

Table 8 | Members Retired for Service Characteristics[1] by Year of Retirement (continued)

Effective Date of Retirement by Service Credit	Number of Retirements	Average Service Credit	Average Unmodified Allowance	Average Final Compensation	Average Age at Retirement
7/1/2008 thru 6/30/2009[2]					
0–5	126	2.4	$291	$5,814	62.4
5–10	1,022	7.4	668	4,236	62.8
10–15	1,145	12.4	1,336	5,140	62.1
15–20	1,323	17.7	2,235	5,995	61.8
20–25	1,535	22.3	3,116	6,537	62.1
25–30	1,406	27.1	4,125	7,076	62.2
30–35	3,161	32.4	5,687	7,506	61.1
35–40	2,574	37.2	7,122	7,866	61.7
40 & over	461	42.2	8,594	8,316	64.9
Total	**12,753**	**26.3**	**$4,396**	**$6,796**	**61.9**
7/1/2009 thru 6/30/2010[2]					
0–5	148	2.3	$289	$5,535	61.4
5–10	1,356	7.4	686	4,287	63.0
10–15	1,436	12.6	1,446	5,385	62.4
15–20	1,663	17.6	2,326	6,138	62.3
20–25	2,323	22.4	3,236	6,658	62.4
25–30	1,885	27.1	4,231	7,165	62.5
30–35	3,620	32.4	5,665	7,478	61.2
35–40	2,481	37.2	7,228	7,999	61.6
40 & over	581	42.3	8,759	8,409	65.4
Total	**15,493**	**25.5**	**4,256**	**6,800**	**62.2**
7/1/2010 thru 6/30/2011[2]					
0–5	194	2.401	305	6,182	62.0
5–10	1,388	7.301	663	4,187	62.9
10–15	1,506	12.508	1,487	5,491	62.7
15–20	1,571	17.475	2,320	6,191	62.2
20–25	2,005	22.433	3,278	6,729	62.5
25–30	1,834	27.053	4,237	7,186	62.4
30–35	2,874	32.412	5,693	7,508	61.3
35–40	2,068	37.241	7,313	8,091	61.8
40 & over	456	42.267	9,037	8,738	65.6
Total	**13,896**	**24.534**	**4,088**	**6,763**	**62.3**

[1]Does not include formerly disabled members

[2]The Average Member-Only Benefit for this fiscal year includes the Longevity Bonus.

Table 8 | Members Retired for Service Characteristics[1] by Year of Retirement (continued)

Effective Date of Retirement by Service Credit	Number of Retirements	Average Service Credit	Average Unmodified Allowance	Average Final Compensation	Average Age at Retirement
7/1/2011 thru 6/30/2012[2]					
0–5	167	2.441	310	6,013	63.0
5–10	1,497	7.306	676	4,224	63.2
10–15	1,659	12.521	1,437	5,315	62.7
15–20	1,743	17.425	2,316	6,122	62.7
20–25	1,962	22.535	3,350	6,788	62.6
25–30	1,878	27.097	4,318	7,212	62.8
30–35	2,547	32.504	5,750	7,550	61.4
35–40	1,770	37.203	7,364	8,093	61.9
40 & over	396	42.138	9,487	9,113	65.2
Total	**13,619**	**23.710**	**3,936**	**6,670**	**62.5**

[1]Does not include formerly disabled members

[2]The Average Member-Only Benefit for this fiscal year includes the Longevity Bonus.

Table 9 | Members Retired for Service Characteristics[1]

Fiscal Year Ending June 30	Average Age at Retirement	Average Years of Service Credit	Average Final Compensation	Average Current Allowance Payable
2003	60.7	25.9	$3,735	$2,339
2004	60.7	26.0	3,931	2,488
2005	60.8	26.1	4,103	2,617
2006	60.8	26.2	4,264	2,741
2007	60.8	26.3	4,437	2,878
2008	60.8	26.3	4,620	3,021
2009	60.8	26.4	4,798	3,164
2010	60.9	26.3	4,983	3,302
2011	61.0	26.3	5,138	3,417
2012	61.1	26.2	5,271	3,517

[1]Does not include formerly disabled members.

Table 10 | Retired Members by Type of Benefit and Option Elected

		Type of Benefit[1]			Option selected[2]								
Monthly Unmodified Allowance[4]	**Total**	**1[3]**	**2**	**3**	**Unmodified**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Less than $500	18,354	15,690	146	2,518	13,535	1,710	570	75	90	1,519	589	80	186
500–1000	26,874	22,802	767	3,305	18,038	2,532	1,412	131	118	2,603	1,496	95	449
1000–1500	27,656	23,008	1,067	3,581	16,296	3,046	1,777	226	165	3,138	2,340	79	589
1500–2000	28,509	23,598	1,661	3,250	15,924	2,803	1,337	486	193	3,520	3,369	118	759
2000–2500	27,818	22,651	2,212	2,955	14,488	2,557	1,105	420	224	4,017	3,996	146	865
2500–3000	23,143	19,268	1,703	2,172	11,483	1,950	676	316	133	3,988	3,618	143	836
3000–3500	18,498	15,948	1,002	1,548	8,852	1,358	427	260	74	3,562	2,995	157	813
3500–4000	14,197	12,948	321	928	6,749	948	296	173	59	2,744	2,449	114	665
4000–4500	12,795	12,045	99	651	5,865	780	235	105	41	2,519	2,444	163	643
4500–5000	12,345	11,762	31	552	5,507	714	217	70	31	2,717	2,300	153	636
5000–5500	12,235	11,827	14	394	5,304	677	179	66	20	2,772	2,324	169	724
5500–6000	10,672	10,370	6	296	4,567	580	154	61	18	2,463	1,950	164	715
6000 & Greater	28,942	28,361	7	574	10,940	1,974	332	140	43	7,714	4,987	649	2,163
Total	**262,038**	**230,278**	**9,036**	**22,724**	**137,548**	**21,629**	**8,717**	**2,529**	**1,209**	**43,276**	**34,857**	**2,230**	**10,043**

[1]Type of Benefit: 1) Service Retirement 2) Disability Benefits 3) Survivor Benefits

[2]Option Selected: Option 2 - Beneficiary receives 100% of member's modified allowance.
Option 3 - Beneficiary receives 50% of member's modified allowance.
Option 4 - Beneficiary receives 2/3 of member's modified allowance.
Option 5 - Survivors receives 50% of member's modified allowance, upon death of either member of beneficiary.
Option 6 - Beneficiary receives 100% of member's modified allowance. If beneficiary pre-deceases the member the allowance pops up to the unmodified amount.
Option 7 - Beneficiary receives 50% of member's modified allowance. If beneficiary pre-deceases the member the allowance pops up to the unmodified amount.
Option 8 - Compound option that allows the member to provide for more than one beneficiary.
Option 9 - Beneficiary receives 75% of member's modified allowance. If beneficiary pre-deceases the member the allowance pops up to the unmodified amount.

[3]Does not include formerly disabled members

[4]As of the June 30, 2004 population report the longevity bonus is included in the unmodified allowance

Table 11 Principal Participating Defined Benefit and Defined Benefit Supplement Employers for Current Year and Nine Years Ago

	2012			2003		
Participating Employers	Covered Employees	Rank	Percentage of Total System	Covered Employees	Rank	Percentage of Total System
Los Angeles Unified	54,146	1	11.03	51,422	1	9.89
San Diego Unified	9,680	2	1.97	13,811	2	2.66
Long Beach Unified	5,166	3	1.05	7,074	3	1.36
Fresno Unified	4,882	4	.99	6,194	4	1.19
San Francisco Unified	4,658	5	.95	4,925	5	.95
Elk Grove Unified	3,911	6	.80	3,827	11	.74
San Bernardino City Unified	3,812	7	.78	3,889	10	.75
Corona-Norco Unified	3,398	8	.69			
Santa Ana Unified	3,314	9	.68	4,008	9	.77
Sacramento City Unified	3,172	10	.65	4,127	8	.79
Capistrano Unified	3,071	11	.63			
Oakland Unified	3,056	12	.62	4,196	7	.81
Top 12 Total	102,266			103,473		
All Other	388,577		79.16	416,286		80.09
Total All Employers	**490,843**		**100%**	**519,759**		**100%**

Defined Benefit Supplement Program

Table 1 Changes in Net Assets

(dollars in millions)[1]

Fiscal Year Ending June 30	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Additions										
Member Contributions	$44.9	$341.9	$651.5	$700.8	$684.8	$638.5	$599.1	$574.1	$565.8	$532.6
Employer Contributions	57.7	68.9	145.3	121.2	117.6	111.4	104.0	95.6	125.3	72.2
Investment Income	139.1	1,514.0	712.9	(1,122.5)	(387.8)	798.1	339.0	235.5	247.6	63.9
Total Additions	**$241.7**	**$1,924.8**	**$1,509.7**	**($300.5)**	**$414.6**	**$1,548.0**	**$1,042.1**	**$905.2**	**$938.7**	**$668.7**
Deductions										
Benefit Payments to Members	$223.4	$249.9	$223.7	$156.4	$139.4	$97.2	$98.0	$75.4	$42.0	$0.6
Refunds of Member Contributions	24.4	26.0	13.7	29.8	17.7	18.0	14.0	8.6	3.1	0.7
Administration Expenses	6.9	6.1	6.1	3.4	2.9	2.5	2.0	1.7	1.2	0.6
Other Expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Deductions	**$254.7**	**$282.0**	**$243.5**	**$189.6**	**$160.0**	**$117.7**	**$114.0**	**$85.7**	**$46.3**	**$1.9**
Change in Net Assets	**($13.0)**	**$1,642.8**	**$1,266.2**	**($490.1)**	**$254.6**	**$1,430.3**	**$928.1**	**$819.5**	**$892.4**	**$666.8**

[1]There may be immaterial rounding differences between the figures presented in this table and in the Statement of Changes in Fiduciary Net Assets.

Table 2 Benefit and Refund Deductions from Net Assets by Type

(dollars in millions)[1]

Fiscal Year Ending June 30	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Type of Benefit										
Age & Service Benefits										
Retired Members	$206.9	$233.6	$205.8	$146.7	$129.6	$91.3	$94.0	$71.4	$39.0	$0.5
Survivors	0.9	1.2	1.2	0.6	0.4	0.2	0.1	0.0	0.2	0.0
Death	5.6	5.8	7.6	4.3	4.2	2.6	1.9	2.0	1.1	0.1
Disability Benefits										
Retired Members	10.0	9.4	9.1	4.8	5.2	3.1	2.0	2.0	1.6	0.0
Total Benefits	**$223.4**	**$250.0**	**$223.7**	**$156.4**	**$139.4**	**$97.2**	**$98.0**	**$75.4**	**$42.0**	**$0.6**
Type of Refund										
Separation	$24.4	$26.0	$13.7	$29.8	$17.7	$18.0	$14.0	$8.6	$3.1	$0.7
Total Refunds	**$24.4**	**$26.0**	**$13.7**	**$29.8**	**$17.7**	**$18.0**	**$14.0**	**$8.6**	**$3.1**	**$0.7**

[1]There may be immaterial rounding differences between the figures presented in this table and in the Statement of Changes in Fiduciary Net Assets.

Table 3 | Members Retired for Service During Fiscal Year 2011–12[1], Classified by Age and Option Elected

		Regular Annuity				Period Certain							
Age	Total	Single Life with Cash	100% Joint and Survivor	75% Joint and Survivor	50% Joint and Survivor	10 Years	9 Years	8 Years	7 Years	6 Years	5 Years	4 Years	3 Years
Under 55	24	5	2	0	1	7	1	0	0	1	4	2	1
55	369	119	47	6	12	58	5	7	8	1	52	14	40
56	201	63	28	6	6	31	5	1	5	3	21	5	27
57	268	70	23	8	17	53	3	8	10	6	28	3	39
58	409	100	40	8	23	83	4	4	13	14	61	11	48
59	574	113	73	11	28	134	9	2	6	20	106	9	63
60	806	164	120	16	40	172	12	5	17	23	152	20	65
61	1,132	231	184	22	44	258	23	14	19	16	168	55	98
62	934	213	126	23	39	201	12	13	15	13	133	21	125
63	730	199	89	22	43	131	10	4	23	16	100	14	79
64	576	169	71	8	31	103	9	3	10	17	83	7	65
65	486	143	66	18	27	80	3	2	11	6	84	6	40
66	309	96	38	10	15	62	2	1	2	4	45	3	31
67	261	77	27	6	9	45	6	0	4	1	46	5	35
68	185	70	26	7	6	29	3	0	4	2	21	1	16
69	150	52	22	2	4	28	0	0	2	2	18	5	15
70	92	24	6	1	6	25	1	0	1	1	18	1	8
71	56	16	6	2	1	8	1	0	0	4	10	3	5
72	43	19	5	0	1	6	0	0	0	0	5	0	7
73	38	12	0	0	0	9	0	0	3	0	10	0	4
74	18	9	1	0	0	2	1	0	0	0	2	0	3
75 and over	81	27	4	0	3	17	1	0	2	1	17	0	9
Age Unknown	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**7,742**	**1,991**	**1,004**	**176**	**356**	**1,542**	**111**	**64**	**155**	**151**	**1,184**	**185**	**823**

[1]Does not include formerly disabled members.

Table 4 | Characteristics of All Members Retired for Service and Receiving an Annuity

Fiscal Year Ending June 30	Count	Average Monthly Retirement Annuity	Average Accumulated Credits[2]	Average Age at Retirement
2003[1]	—	—	—	—
2004	1,902	$94	$3,120	61.1
2005	5,394	118	4,317	61.3
2006	9,153	138	5,257	61.3
2007	13,299	158	6,379	61.4
2008	17,517	176	7,636	61.4
2009	22,474	203	9,019	61.6
2010	29,261	227	10,651	61.7
2011	34,917	241	12,004	61.9
2012	40,493	249.66	13,133.17	62.0

[1]The Defined Benefit Supplement Program was established January 1, 2001. As of June 30, 2003, all members who had retired or become disabled had elected a lump-sum distribution.

[2]Neither service credit nor final compensation are factors in determining a benefit from the Defined Benefit Supplement Program and therefore are not included in this table.

Table 5 | Characteristics of All Members Retired for Disability and Receiving an Annuity

Fiscal Year Ending June 30	Count	Average Monthly Disability Annuity	Average Accumulated Credits[2]	Average Age at Retirement
2003[1]	—	—	—	—
2004	25	$82	$2,152	55.4
2005	52	94	2,765	55.2
2006	76	106	3,335	55.8
2007	125	121	4,367	55.6
2008	175	129	5,332	55.2
2009	236	163	6,308	54.8
2010	336	201	7,673	55.6
2011	575	239	9,436	55.4
2012	747	238.61	10,403.55	55.5

[1]The Defined Benefit Supplement Program was established January 1, 2001. As of June 30, 2003, all members who had retired or become disabled had elected a lump-sum distribution.

[2]Neither service credit nor final compensation are factors in determining a benefit from the Defined Benefit Supplement Program and therefore are not included in this table.

Table 6 Retired Members by Type of Benefit and Option Elected

(as of June 30, 2012)

	Monthly Member-Only Benefit					
Type of Benefit	**Less than $250**	**$250–500**	**$500–750**	**$750–1,000**	**$1,000 & Greater**	**Total**
Retirement	26,222	9,858	3,188	780	445	40,493
Disability	510	171	50	9	7	747
Survivors	475	180	65	23	8	751
Total	**27,207**	**10,209**	**3,303**	**812**	**460**	**41,991**
Type of Payment						
Regular Annuity						
Single Life Without Cash	1,118	1				1,119
Single Life With Cash	10,756	714	46	8	1	11,525
100% J&S	6,770	615	52	8	6	7,451
75% J&S	790	88	15			893
50% J&S	2,057	187	25	2	2	2,273
Period-Certain Annuity						
10 Year	4,034	2,758	326	81	39	7,238
9 Year	312	239	34	7	4	596
8 Year	163	213	16	6	3	401
7 Year	207	401	60	21	6	695
6 Year	173	495	107	15	8	798
5 Year	508	3,671	1,239	204	108	5,730
4 Year	47	335	262	39	22	705
3 Year	272	492	1,121	421	261	2,567
Total	**27,207**	**10,209**	**3,303**	**812**	**460**	**41,991**

Cash Balance Benefit Program

Table 1 Changes in Net Assets

(dollars in thousands)

Fiscal Year Ending June 30	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Additions										
Participant Contributions	$5,824.0	$6,386.0	$6,486.2	$7,481.4	$6,921.4	$5,952.9	$5,503.4	$4,149.1	$3,866.6	$3,580.9
Employer Contributions	6,022.0	6,503.0	6,712.5	7,489.5	7,497.2	5,930.5	5,102.3	4,490.1	3,844.9	3,589.6
Investment Income	(199.0)	27,823.0	12,648.1	(19,727.8)	(6,994.7)	14,093.1	6,111.4	4,540.2	5,384.4	1,381.9
Total Additions	**$11,647.0**	**$40,712.0**	**$25,846.8**	**($4,756.9)**	**$7,423.9**	**$25,976.5**	**$16,717.1**	**$13,179.4**	**$13,095.9**	**$8,552.4**
Deductions										
Benefit Payments to Participant	$3,582.0	$2,463.0[1]	$2,019.4[1]	$1,221.9[1]	$1,053.3[1]	$883.9[1]	$1,329.7[1]	$1,235.2[1]	$580.3[1]	$188.0
Refunds of Participant Contributions	1,160.0	1,305.0	1,090.5	1,054.4	608.1	664.3	472.4	244.8	196.7	132.5
Administration Expense	133.0	114.0	112.7	65.5	52.1	44.1	36.0	34.0	27.7	16.8
Total Deductions	**$4,875.0**	**$3,882.0**	**$3,222.6**	**$2,341.8**	**$1,713.5**	**$1,592.3**	**$1,838.1**	**$1,514.0**	**$804.7**	**$337.3**
Change in Net Assets	**$6,772.0**	**$36,830.0**	**$22,624.2**	**($7,098.7)**	**$5,710.4**	**$24,384.2**	**$14,879.0**	**$11,665.4**	**$12,291.2**	**$8,215.1**

There may be immaterial rounding differences between the figures presented in this table and in the Statement of Changes in Fiduciary Net Assets.

[1]The benefit payments for fiscal years 2003/04, 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, 2010/11, and 2011/12 include member elected Administrative Transfers to purchase service credit in the Defined Benefit program. The amounts were $220,255, $603,499, $594,133, $278,210, $354,751, $169,976, $396,434, $638,212, and $838,650 respectively.

Table 2 Benefit and Refund Deductions from Net Assets by Type

(dollars in thousands)

Fiscal Year Ending June 30	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Type of Benefit										
Age & Service Benefits										
Retired Members	$3,287.1	$2,161.8[1]	$1,802.9[1]	$824.0[1]	$993.5[1]	$829.6[1]	$1,237.0[1]	$1,143.2[1]	$535.4[1]	$132.2
Death	300.1	301.2	216.5	397.9	59.8	48.0	91.4	92.0	44.9	48.3
Disability Benefits										
Retired Members	(5.4)	0.0	0.0	0.0	0.0	5.8	1.3	0.0	0.0	7.5
Total Benefits	**$3,581.8**	**$2,463.0**	**$2,019.4**	**$1,221.9**	**$1,053.3**	**$883.4**	**$1,329.7**	**$1,235.2**	**$580.3**	**$188.0**
Type of Refund										
Separation	$1,160.0	$1,305.4	$1,090.5	$1,054.4	$608.1	$664.3	$472.4	$244.8	$196.7	$132.5
Total Refunds	**$1,160.0**	**$1,305.4**	**$1,090.5**	**$1,054.4**	**$608.1**	**$664.3**	**$472.4**	**$244.8**	**$196.7**	**$132.5**

There may be immaterial rounding differences between the figures presented in this table and in the Statement of Changes in Fiduciary Net Assets.

[1]The benefit payments for fiscal years 2003/04, 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, 2010/11, and 2011/12 include member elected Administrative Transfers to purchase service credit in the Defined Benefit program. The amounts were $220,255, $603,499, $594,133, 278,210, $354,751, $169,976, $396,434, $638,212, and $838,650 respectively.

Table 3 | Participants Retired for Service During the 2011-12 Fiscal Year[1] Classified by Age and Type of Annuity Selected

		Regular Annuity				Period Certain Annuity							
Age	Total	Participant Only[2]	100% Beneficiary[3]	75% Beneficiary[4]	50% Beneficiary[5]	10 Years	9 Years	8 Years	7 Years	6 Years	5 Years	4 Years	3 Years
Under 55	0												
55	1										1		
56	0												
57	0												
58	0												
59	0												
60	2				1								1
61	1										1		
62	0												
63	3	2				1							
64	3	1			1								1
65	6	2	2			1							1
66	0												
67	3	2				1							
68	4	1				1					1		1
69	2	1									1		
70	7	4				2				1			
71	2	2											
72	0												
73	1						1						
74	4	1				1					1		1
75	0												
Over 75	2		1			1							
Total	**41**	**16**	**3**	**0**	**2**	**8**	**1**	**0**	**0**	**1**	**5**	**0**	**5**

[1]Does not include formerly disabled members

[2]Formerly known as the Single Life Annuity with Cash Refund

[3]Formerly known as the 100% Joint and Survivor Annuity

[4]New option available for selection effective January 1, 2007

[5]Formerly known as the 50% Joint and Survivor Annuity

Table 4 | Characteristics of All Members Retired for Service and Receiving an Annuity

Fiscal Year Ending June 30	Average Age At Retirement	Average Annuitant Reserve	Average Monthly Annuity
2002	—	—	—
2003	—	—	—
2004	67.8	$10,344	$134
2005	65.0	13,187	191
2006	67.5[1]	11,596	185
2007	66.9	10,892	183
2008	67.2	12,400	206
2009	67.3	13,054	201
2010	68.1	12,701	204
2011	67.8	13,388	215
2012	67.7	15,945	233

[1]Revised 2007.

Table 5 | All Participants Receiving an Annuity by Type of Benefit and Type of Annuity Selected

	Monthly Unmodified Allowance					
Type of Benefit	**Less than $250**	**$250–500**	**$500–750**	**$750–1,000**	**$1,000 & Greater**	**Total**
Retirement	70	19	9	2	2	102
Disability	0	0	0	0	0	0
Survivors	1	0	0	0	0	1
Total	**71**	**19**	**9**	**2**	**2**	**103**
Type of Payment						
Regular Annuity						
Single Life Without Cash	2	0	0	0	0	2
Participant Only	33	2	2	0	0	37
100% Beneficiary Annuity	5	1	0	0	0	6
70% Beneficiary Annuity	0	0	0	0	0	0
50% Beneficiary Annuity	2	1	0	0	0	3
Period-Certain Annuity						
10 Year	15	4	1	0	0	20
9 Year	2	0	0	0	0	2
8 Year	0	0	0	0	0	0
7 Year	1	1	0	0	0	2
6 Year	0	1	1	0	0	2
5 Year	5	5	0	0	0	10
4 Year	0	1	1	0	0	2
3 Year	6	3	4	2	2	17
Total	**71**	**19**	**9**	**2**	**2**	**103**

Table 6 Principal Participating Employers for the Cash Balance Benefit Program, Current Year and Nine Years Ago

	2012			2003		
Participating Employers	Covered Employees	Rank	Percentage of Total System	Covered Employees	Rank	Percentage of Total System
*Los Angeles CCD	4,315	1	12.73	1,499	1	8.54
Contra Costa CCD	2,251	2	6.64	1,339	3	7.63
Peralta CCD	2,190	3	6.458	1,352	2	7.70
West Contra Costa Unified	2,134	4	6.293	1,330	4	7.60
City College of San Francisco	1,889	5	5.57	1,329	5	7.57
Chabot-Las Positas CCD	1,722	6	5.078	1,082	6	6.16
San Jose/Evergreen CCD	1,716	7	5.06	937	7	5.34
Santa Rosa Junior College	1,401	8	4.131	809	9	4.61
Glendale CCD	1,343	9	3.96	886	8	5.05
Foothill De Anza CCD	1,339	10	3.95	753	10	4.30
Top 10 Total	20,300			11,316		
All Other	13,608		40.13	6,242		35.50
Total	**33,908**		**100%**	**17,558**		**100%**

*Los Angeles Community College District does not have covered employees reported for 2003. This is due to Los Angeles CCD not offering CB membership until 2006. Data was incorrectly reported for 2000 in the 2009 CAFR and 2001 in the 2010 CAFR for Los Angeles CCD. The exact same data was reported two years consecutively for the top ten employers. The 2003 data reported reflects this correction.

Programs Administered or Overseen By the Retirement System

Pension2

Table 1A | Changes in Net Assets for Pension2 IRC 403(b)

(dollars in thousands)[2]

Fiscal Year Ending June 30	2012	2011	2010	2009[2]	2008[2]	2007	2006	2005	2004	2003
Additions										
Participant Contributions	$53,111	$47,181	$53,536	$42,966	$26,289	$23,338	$21,509	$20,379	$19,535	$17,481
Interest, Dividends and Investment Income	6,132	43,782	17,175	(28,479)	(12,569)	22,793	10,245	6,143	9,754	1,054
Other Income	188	225	0	0	17	16	0	0	0	0
Total Additions	**$59,431**	**$91,188**	**$70,711**	**$14,487**	**$13,737**	**$46,147**	**$31,754**	**$26,522**	**$29,289**	**$18,535**
Deductions										
Distributions and Withdrawals[1]	$19,978	$16,690	$11,892	$8,644	$9,570	$8,451	—	—	—	—
Benefit Payments to Participant	0	0	0	0	0	0	$2,286	$2,645	$1,617	$1,965
Refunds of Participant Contributions	0	0	0	0	0	0	7,481	6,131	6,440	3,478
Administration Expenses	606	538	374	278	526	782	935	917	807	504
Total Deductions	**$20,584**	**$17,228**	**$12,266**	**$8,922**	**$10,096**	**$9,233**	**$10,702**	**$9,693**	**$8,864**	**$5,947**
Change in Net Assets	**$38,847**	**$73,960**	**$58,445**	**$5,565**	**$3,641**	**$36,914**	**$21,052**	**$16,829**	**$20,425**	**$12,588**

[1]Distributions and Withdrawals reflects the Benefit Payments to Participant and Refunds of Participant Contributions combined for fiscal year 2006/07 and thereafter.

[2]Certain reclassifications have been made to the totals for the fiscal years ended June 30, 2008 and 2009.

Table 1B | Changes in Net Assets for Pension2 IRC 457 Plans

(dollars in thousands)

Fiscal Year Ending June 30	2012	2011	2010	2009
Additions				
Participant Contributions	$6,877	$1,289	$674	$37
Interest, Dividends and Investment Income	219	155	60	1
Other Income	37	42	0	0
Total Additions	**$7,133**	**$1,486**	**$734**	**$38**
Deductions				
Distributions and Withdrawals	$19	$82	$0	$0
Benefit Payments to Participant	0	0	0	0
Refunds of Participant Contributions	0	0	0	0
Administration Expenses	8	2	0	0
Total Deductions	**$27**	**$84**	**$0**	**$0**
Change in Net Assets	**$7,106**	**$1,402**	**$734**	**$38**

The Pension2 IRC 457 Plan began in fiscal year 2008–09.

Table 2 Largest Participating Employers for CalSTRS Pension2, Current Year and Six Years Ago[1]

	2012			2006		
Participating Employers	**Participating Employees**	**Rank**	**Percentage**	**Participating Employees**	**Rank**	**Percentage**
Los Angeles USD	4,192	1	41.54%	525	1	14.47%
San Diego City USD	175	2	1.73	65	2	1.79
Fremont USD	156	3	1.55			
LA Comm College Dist	126	4	1.25			
City College of San Francisco	100	5	0.99			
Long Beach Unified	95	6	0.94	43	4	1.18
Sacramento City USD	83	7	0.82	42	5	1.16
San Francisco USD	82	8	0.81	44	3	1.21
San Juan Unified	81	9	0.80	29	9	0.80
San Diego Comm College	72	10	0.71			
Capistrano Unified				37	6	1.02
Fresno Unified				33	7	0.91
Mt. Diablo Unified				31	8	0.85
Orange Unified				28	10	0.77
All Other	4,930		48.85	2,752		75.83
Total (709 employers)	**10,092**		**100%**	**3,872**		**100%**

[1]Due to change in record keeper, data is only available since 2006.

Medicare Premium Payment Program

Table 1 Changes in Net Assets
(dollars in thousands)

Fiscal Year Ending June 30	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Additions										
Employer Contributions	$34,614	$36,145	$31,749	$29,962	$33,239	$32,257	$29,602	$28,483	$26,496	$22,221
Interest, Dividends and Investment Income	8	10	33	106	205	240	143	87	41	53
Other Income	0	0	0	0	0	0	0	(158)	8	0
Total Additions	**$34,622**	**$36,155**	**$31,782**	**$30,068**	**$33,444**	**$32,497**	**$29,745**	**$28,412**	**$26,545**	**$22,274**
Deductions										
Premiums Paid	$34,412	$35,785	$35,421	$29,415	$32,689	$31,270	$29,313	$27,416	$25,648	$22,026
Administration Expenses	370	345	309	316	334	190	359	429	373	355
Total Deductions	**$34,782**	**$36,130**	**$35,730**	**$29,731**	**$33,023**	**$31,460**	**$29,672**	**$27,845**	**$26,021**	**$22,381**
Change in Net Assets	**($160)**	**$25**	**($3,948)**	**$337**	**$421**	**$1,037**	**$73**	**$567**	**$524**	**($107)**

Medicare Premium Payment Program began in 2001.

Table 2 Benefit and Refund Deductions from Net Assets by Type
(dollars in thousands)

Fiscal Year Ending June 30	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Type of Benefit										
Age & Service Benefits										
Retired Members	$34,412	$35,785	$35,421	$29,415	$32,689	$31,270	$29,313	$27,416	$25,648	$22,026
Total Benefits	**$34,412**	**$35,785**	**$35,421**	**$29,415**	**$32,689**	**$31,270**	**$29,313**	**$27,416**	**$25,648**	**$22,026**

Medicare Premium Payment Program began in 2001.

Table 3 Retired Members Enrolled in Medicare Premium Payment Program During Fiscal Year 2011–12 Classified by Age at Retirement

Age	Total
<55	3
55–56	23
56–57	19
57–58	26
58–59	36
59–60	51
60–61	49
61–62	81
62–63	31
63–64	12
64–65	10
65–66	3
66–67	0
67–68	5
68–69	2
69–70	3
70–71	0
71–72	2
72–73	1
73–74	0
74–75	1
>=75	1
Grand Total	**359**

Table 4 Characteristics of All Retired Members Enrolled in Medicare Premium Payment Program

Fiscal Year Ending June 30	Average Age at Retirement	Average Monthly Medicare Premium
2002	60.4	$301
2003	60.4	301
2004	60.4	339
2005	60.4	354
2006	60.4	368
2007	60.4	394
2008	60.4	414
2009	60.3	464
2010	60.3	438
2011	60.3	431
2012	60.3	417

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